General Description of the Nature and Risks of Financial Instruments.

HARVEST
FINANCIAL SERVICES

Background

In Harvest, we pay a lot of attention to risk and we like our clients as far as possible to understand the risks associated with every investment they make. We put particular emphasis on helping our clients to appreciate the difference between exposing their portfolios to risk of permanent loss (as can arise with geared investments) and risk of cyclical loss (from normal market fluctuations).

Our Investment Committee allocates each investment on our list of recommended funds a risk rating based on its volatility. For risk levels 1-7, the ratings correspond with the official ESMA ratings but we also allow for three higher risk categories which fall outside the ESMA universe. These risk ratings are provided as a guide to help you make informed investment decisions. All investment decisions should be made within the context of your investment needs and objectives with an appropriate diversification of assets.

Investment is about risk and reward. High risk brings high "potential" reward and vice versa. In putting together an investment portfolio, one aims to tilt the risk/reward balance as far as possible in favour of the investor, allowing the investor exposure to the maximum potential reward at the minimum possible risk. The personal circumstances of the investor as well as the investor's own attitude to risk will, broadly, determine what the acceptable level of risk is for the investor concerned. While a number of factors should be taken into account in setting the level of risk, the overriding influence from a purely objective standpoint is the time horizon of the investor. For example, a 30 year old investor can afford exposure to considerably more risk than the life savings of a pensioner.

From the outset, it is also crucially important that the aims and ambitions for the fund are agreed between the client and the financial adviser and are set out clearly. The principal items to be agreed include the level of income required in the future, the timing of that income and the level of annual contributions which are expected to be made to the fund on an ongoing basis. The answers to these questions will determine the level of return required to meet the agreed targets and will thus greatly influence the level of risk to be borne by the fund. For example, there is no point in a fund carrying a large equity exposure when the required level of return can be easily met from lower risk assets.

Deciding on what proportion of your fund is invested in the major asset categories (equities, bonds, cash etc,) is known as asset allocation and is a very important first step in building your portfolio. In fact there are plenty of academic studies which suggest that the asset allocation step has a bigger influence in determining the overall performance outcome than the selection of the individual investments to be included in the portfolio.

We also prefer to steer our clients towards pooled liquid investment structures (unit funds, ETFs and investment trusts) and to keep exposure to direct equities, unlisted investments and direct property to a minimum. We maintain a Recommended List of such liquid pooled investments as an aid to constructing appropriate portfolios for clients.

General Risk factors

There are a number of defined risks associated with investment activity of which investors should be aware. Among these are the following:

(i) **Market Risk**: the risk that changes in market prices have an adverse effect on asset values.
(ii) **Interest Rate Risk**: the risk that changes in interest rates have an adverse effect on asset values.
(iii) **Currency Risk**: the risk that exchange rate movements can affect values where the asset price is denominated in a foreign currency.
(iv) **Liquidity Risk**: the risk that an investment may be difficult to sell in adverse market conditions.
(v) **Economic Risk**: the risk that adverse economic developments may affect asset values.
(vi) **Country Risk**: the risk that the value of an asset located in a particular country may be adversely affected by political or economic developments in that country.
(vii) **Legal Risk**: the risk that changes to the law could affect the value or marketability of a particular investment.
(viii) **Inflation Risk**: the risk that price inflation could affect the real value of an investment.
(ix) **Counterparty Risk**: the risk that a counterparty may not meet its contractual obligations in full.

Specific Risk Factors

In addition to the general risks set out above, there are also risks which pertain specifically to separate asset classes. These are described below.

1. **Equities (Shares)**

   Investing directly in shares may involve the following risks:

   (i) **Company Risk**: company shareholders are directly exposed to all matters affecting the business and operations of that company and in the extreme could lose all of their investment.
   (ii) **Price Risk**: the price of a company's shares can be affected by market factors which are independent of the underlying performance of the company.
   (iii) **Dividend Risk**: future dividend payments can be affected by a range of influences and the level of such payments cannot be relied upon by investors.

2. **Bonds**

   Purchasers of bonds are in effect lending money to the issuer, whether that be a government or a company. As a result, the risks associated with bonds can be very different from shares. Among the specific risks are the following:

   (i) **Default Risk**: the risk that the bond issuer may not be in a position to pay interest or repay capital or both.
   (ii) **Interest Rate Risk**: most bonds pay a fixed rate of interest and as a result their market values are negatively by rises in market interest rates.

3. Funds

Funds are collective investments and the category can include can include quite a wide range of structures. Most funds available to to retail investors are open ended UCITS structures offering a high degree of liquidity. However, the category also includes closed-end funds which may be listed offering good liquidity or may be unlisted with very limited liquidity. Among the specific risks pertaining to funds are the following:

(i) **Redemption Risk**: while open ended funds offer regular liquidity (usually daily), this feature can often be withdrawn temporarily in adverse market conditions.

(ii) **Regulatory Risk**: funds located outside of the EU may be subject to lower investor protections and/or varying regulatory issues compared to funds regulated inside the EU.

(iii) **Gearing Risk**: some funds are authorised to use gearing or to invest in derivatives which may substantially increase the underlying risk.

(iv) **Diversification Risk**: funds investing in a very narrow range of assets may carry a much lower degree of diversification than might be expected by the investor.

(v) **Evaluation Risk**: funds investing in illiquid assets may be difficult to value, particularly in adverse market conditions.

(vi) **Management Risk**: the performance of a fund will depend to a great degree on the competence of its management. Poor decision making by the management or the loss of particular individuals may have a significant influence on the performance of that fund.

4. Unlisted Securities

Shares and bonds not listed on regulated markets carry particular risks as a result of being unlisted. Among these risks are:

(i) **Liquidity Risk**: unlisted investments may be highly illiquid which may affect not just their tradability but also their pricing and transparency.

(ii) **Information Risk**: because unlisted structures have lower disclosure requirements, the information available around the company's operations and performance may be very limited.

(iii) **Small Cap Risk**: Unlisted entities are commonly small in comparison with their listed counterparts which increases the risk of default, insolvency etc.

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