WAVERTON INVESTMENT MANAGEMENT

Investment Mandates Guidance Notes

WAVERTON

INVESTMENT MANAGEMENT

CONTENTS

INTRODUCTION

These guidance notes are to help you understand the rationale for the investment mandates offered by Waverton Investment Management so that we can help you to agree what is the most appropriate investment strategy for your portfolio. The nature of risk is highly complex and sometimes quite subjective. Often it cannot easily be quantified. Therefore it is important that you consider carefully the descriptions contained in this document in order that we can agree on the most appropriate mandate to suit your requirements.

Future returns over the next, say, thirty years are likely to be lower than they have been over the last three or four decades, if only because starting bond yields and interest rates generally are so low. You can read more about this on pages 9 & 10.

In this environment we foresee Waverton continuing to balance an assessment of risk and reward on behalf of our clients across our range of mandates. Regardless of the vagaries of markets, we do believe that a commitment to active management, high levels of personal service and a value for money proposition will remain at the heart of what we do.

Andrew Fleming
Chief Executive

October 2016

WAVERTON'S APPROACH TO MANAGING MONEY

The key elements of the Waverton approach to managing client money remain:

– a **global approach** to investing, which we believe is essential to protect long term purchasing power. We will search for the best opportunities on a global basis.

– an **active approach** to investing, both in terms of asset allocation and stock selection level. Our overriding concern will be the investment merits of a particular asset, rather than its importance in any index.

– a **close relationship between the client and the portfolio manager**. This enables particular circumstances (for example income requirements) to be taken into account in the construction of the portfolio.

– **regular contact** between the client and the portfolio manager as well as a secondary portfolio manager and an assistant on each account to ensure the client always has clear points of contact.

– **detailed and transparent reporting** to keep the client fully informed of holdings and strategy.

– a commitment to **online reporting** and **digital** communication.

MANDATE DESCRIPTIONS & INVESTMENT OBJECTIVES

Equity – Bespoke investment in generally larger capitalisation equities globally. For clients who have an extended time horizon and whose objective is to maximise the value of their capital by participating in the growth of the world economy thereby significantly increasing their long term purchasing power; can tolerate periods of significant volatility. On a selective basis, other asset classes (e.g. bonds/hedge funds/The Waverton Protection Strategy) may be considered if appropriate. Portfolios will have the flexibility to hold cash in difficult market conditions.

Growth – Investment primarily in equities globally for those clients who broadly have a long term investment objective as described above but who have a lower tolerance of risk. There will be a lesser allocation to equities and a correspondingly greater allocation to other asset classes than in a pure equity mandate.

Balanced – For those who are comfortable with equities representing the core of the portfolio, but whose risk tolerance and / or time horizon requires diversification across asset classes and a lower level of volatility than a portfolio with a higher equity content. Often appropriate for clients requiring a combination of income as well as some modest capital growth in real terms.

Cautious – A medium risk mandate for clients who wish to have some participation in the higher returns available from equities, but prefer a more cautious stance than the typical "Balanced" investor. Likely to have a meaningful allocation to "alternative" investments (see glossary for definition).

Defensive – A modest equity allocation for more risk averse clients who want to preserve the value of their capital and minimise volatility whilst being able to benefit from some increase in long term purchasing power. Has a higher weighting in "alternatives".

Bonds – A fixed interest mandate for those who require low risk to capital in nominal terms. May include index-linked stock and other cash equivalent or bond-like instruments if deemed appropriate.

Please note that our definitions (e.g. Balanced or Cautious) may differ from other firms' definitions so it is important that you read this explanation to understand fully the implications of your mandate choice.

INVESTMENT MANDATES

Mandate	Risk Description*	Time Horizon	Indicative Volatility of Returns †		Reference Index			Indicative Long Term Return §
			Historic	Band	Equity	Bonds	Cash ‡	
Equity	High volatility	8 years	16	8 - 23	100	-	-	CPI + 4.5%
Growth	Volatile	7 years	12	6 - 16	75	15	10	CPI + 3.5%
Balanced	Medium volatility; diversified	6 years	10	5 - 13	60	25	15	CPI + 3.0%
Cautious	Medium volatility; highly diversified	5 years	8	4 - 10	45	35	20	CPI + 2.5%
Defensive	Low volatility; highly diversified	4 years	6	3 - 9	33.3	33.3	33.3	CPI + 2.0%
Bonds	Low volatility	3 years	7	3 - 9	-	100	-	CPI + 0.5%

*Note the volatility bands also on this page and potential outcomes highlighted on page 13.

†Historic volatility of returns as at 31.07.16 and based on returns since January 1986. Bands reflect the potential range of volatility as a result of asset allocation changes within the indicated limits. For example, the lower end of the Equity volatility band reflects the fact that there is flexibility to reduce equity exposure to as low as 65% in exceptional circumstances – in favour of Bonds and Cash.

‡In actual portfolios this will include other asset classes such as Commodities, Property Funds and Hedge Funds. See page 6.

§Given the unprecedented interest rate and monetary policy environment, the range of outcomes is likely to be high.

FEATURES OF THE WAVERTON MANDATES: RISK

In order to achieve higher real rates of return over the long term, clients must accept a higher level of risk. This is usually measured using volatility – a measure of the variability of returns. The shorter your investment time horizon and the lower your capacity to cope with short term losses (perhaps because you have pressing cash requirements), the less you can afford to invest in a volatile strategy.

However, whilst volatility is the primary measure of risk, it is important to note that there are other risks to consider, such as liquidity risk (i.e. the possibility that you will not be able to cash in your investment quickly) and inflation risk (i.e. the risk that your investments, whilst making a positive nominal return, lose their purchasing power over a period of time). With regard to liquidity risk, we endeavour at all times to minimise this for every mandate. Protecting your asset base from inflation risk, on the other hand, is more difficult and requires the acceptance of a degree of volatility and risk to capital in the short term – although the risk of a permanent diminution of capital can be obviated through diversification and transparency (i.e. investing in a basket of global large cap companies and publicly traded funds). Generally speaking, our higher risk mandates are likely to provide greater inflation protection over time, and lower risk mandates will be more vulnerable to inflation risk.

Risk Description	Explanation
High Volatility	A high risk of significant losses in the short to medium term
Volatile	A high risk of losses in the short to medium term
Medium volatility; diversified	A significant risk of some loss over the short to medium term, moderated through asset class diversification
Medium volatility; highly diversified	Risk of meaningful losses is moderated through a high degree of diversification across asset classes
Low volatility; highly diversified	Risk of modest loses, the impact of which will be limited by a high degree of asset class diversification
Low volatility	Risk of modest losses - but bond-only mandates are vulnerable to changes in interest rates and inflation

FEATURES OF THE WAVERTON MANDATES (cont.)

A recommended time horizon: Higher risk mandates come with more chance of losses in the short term, albeit with the likelihood of larger gains in the long term. Each of our mandates has a recommended time horizon. This should be considered alongside your risk appetite to ensure that the mandate you choose and its investment objective are suitable.

An indicative long term return: Over the long term, we will aim to achieve a return in excess of inflation (i.e. a real return). The margin is determined by the degree of risk you are prepared to accept and is expressed in terms of CPI+X%, where CPI is the Consumer Price Index in your base currency and X is the additional margin of return above inflation. This is a long term estimate which may not be relevant over short periods of time. It is important to note that we expect returns over the coming years to be lower than in the past because the mathematics of ultra-low and negative bond yields mean that high returns are extremely difficult to achieve – especially in mandates which have a large allocation to bonds and cash. See page 9 for further details of our return assumptions.

A reference index: Each mandate has a recommended index which comprises one or more underlying commonly used market indices. The breakdown of the composite indices is shown in the table on page 15 of this booklet. These allocations should serve as a useful market-based performance comparator as we strive to achieve the long term CPI+ return. It is important to note that during times when the interest on cash is zero or near zero the likelihood is that in practice portfolios will not hold as much cash as is contained in the reference indices – much of it instead being deployed in alternative investments (i.e. not straight bonds or equities, but other assets classes like commodities, property funds, hedge funds etc.) in order to generate a return above cash whilst minimising risk at the portfolio level. In the calculations we have made to derive the indicated long term returns we have assumed that cash can be deployed in this way so as to achieve a return of CPI+ 2% on that portion of portfolios. For further details of our return assumptions, see page 9.

INVESTMENT PARAMETERS

Asset Allocation: The asset allocation which we judge to be broadly consistent with the expected long term return is replicated in the reference indices, with the proviso that in actual client portfolios it is likely that we will invest much of the cash element in alternative investments as described on the previous page. This is especially pertinent in an ultra-low interest rate environment and will be most relevant when considering those mandates which have low equity and fixed interest allocations. The equity component of the indices we use will usually be a global equity index converted back to the base currency of the portfolio. Both the bond index and the cash component will be denominated in the base currency. As active managers, we will vary weightings in portfolios to enhance returns and reduce risk; any commitment to alternative asset classes such as hedge funds, commodities and property funds will be made on a case by case basis in order to achieve the optimum balance between risk and return.

Asset Class Ranges: For each mandate we define the extent to which the amounts invested in each asset class might vary over time. This is set out in the table on page 8. These decisions are driven by the Waverton Asset Allocation Committee and implemented by the portfolio manager. The ranges provide our clients with the assurance that their portfolios will be managed in accordance with their long term objectives but also provide Waverton with a degree of latitude that would be expected of a discretionary fund manager. This provides us with the flexibility to add value using asset allocation and reduce risk for our clients whenever either we or individual client preferences deem it to be necessary.

ASSET CLASS RANGES

Mandate	Neutral Equity Weighting	Typical Asset Class Ranges					
		Equities		Bonds & Cash		Other *	
		Upper	Lower	Upper	Lower	Upper	Lower
Equity	100	100	65	35	0	20	0
Growth	75	90	55	45	5	25	0
Balanced	60	80	40	60	15	30	0
Cautious	45	60	30	70	20	35	0
Defensive	33.3	45	20	80	25	40	0
Bonds	-	-	-	100	80	20	0

* Other asset classes include chiefly Commodities, Property Funds and Hedge Funds. See glossary.

IMPORTANT: The table above illustrates the extent to which we would expect weightings in each asset class to vary during normal market conditions and reflects our active approach to asset allocation. In exceptional market conditions, in the interest of preserving clients' wealth, we reserve the right to operate outside these bands to reduce risk if this is necessary. In the event of this happening, we will keep clients fully informed.

RETURN ASSUMPTIONS

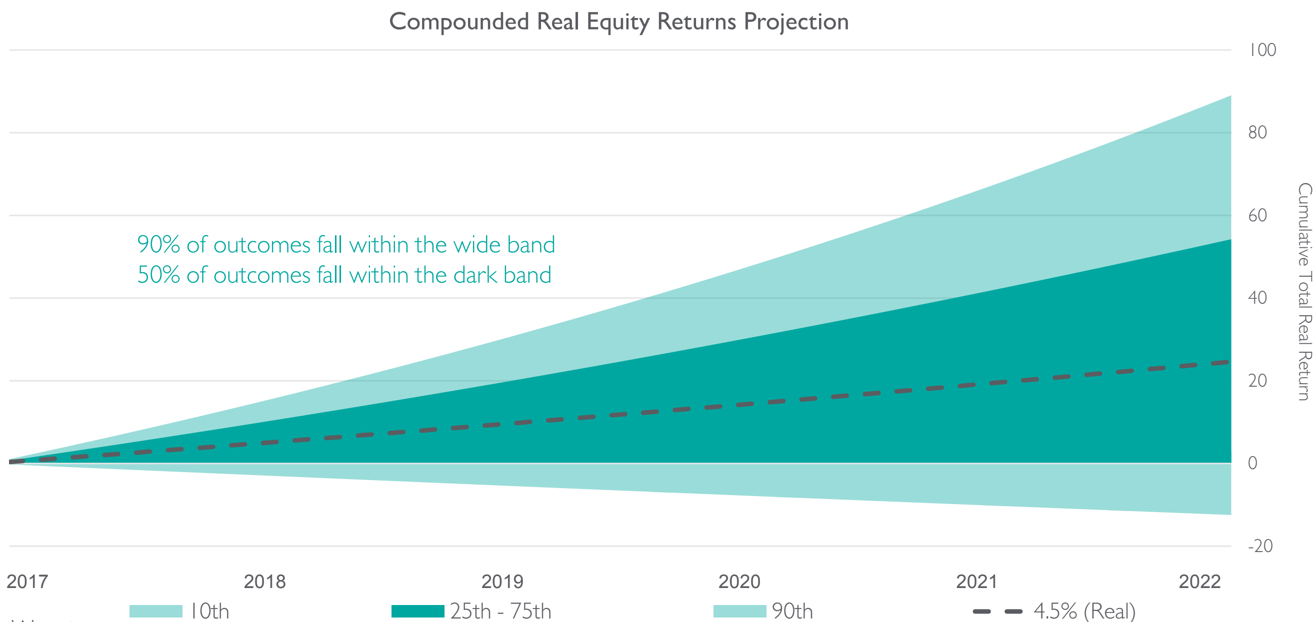
In the past, the return assumptions in our Mandates Guidance Notes were based upon the long term historical averages for equities, fixed-interest and cash. These were cross-checked with forward-looking considerations and deemed to be appropriate in the light of prevailing interest rates (upon which all asset prices to a large extent ultimately depend). However, in the last few years we have witnessed an unprecedented monetary experiment being conducted by central banks which has led to interest rates all over the world falling to levels which were previously unheard of – no matter how many centuries one looks back. Accompanying programmes of Quantitative Easing (often referred to as 'printing money') have driven up the prices of government bonds and corporate bonds through direct buying by central banks; as a secondary effect, equity valuations have been pulled up as investors take on more risk to compensate for the fact that yield is no longer available from the traditional safe havens in the form of cash and bonds.

It has always been the case that an important determinant of future returns has been the starting valuation of the asset in question. Never has this been more true today: the valuation of bonds is extremely high, and traditionally government bonds have been the anchor to which all asset prices are linked. Accordingly, we no longer believe that historic returns are a realistic or prudent place to start when considering investment returns going forward – for the next few years anyway. We have, therefore, thought a great deal about how asset classes are likely to perform from here on – and a paper on this subject entitled *Prospects for Real Returns* is available on request. In this paper we downgraded our return expectations for equities from CPI+5.0% to CPI+4.5% and bonds from CPI+ 2.0% to CPI+0.5%.

At the time of writing, even CPI+0.5% looks optimistic for bonds given current yields, which in many cases are negative. However, we view this as an aberration; also we will henceforth include corporate debt in our reference indices – so we are comfortable estimating a return for bonds above what could be expected if we were solely investing in government debt at these elevated prices. Our long term investment objectives also imply a return on cash above what is currently available: we assume returns on cash are normalised to be in line with inflation; we also assume that much of the cash element of our mandates can be invested in "alternatives" to achieve an average return of CPI+2%.

PROJECTED REAL EQUITY RETURNS

Here we display the breadth of potential outcomes for an all-equity portfolio over the next 5 years, taking 25 years of historic data and applying it to our forward-looking estimate. The analysis assumes a forward-looking 4.5% average real total return (i.e. including dividend income, and after inflation) – lower than the historic average of c.6%. The model predicts that 90% of outcomes will fall within the combined green bands; 50% will fall within the dark green area.



Source: Waverton

FURTHER EXPLANATION OF POTENTIAL OUTCOMES OF INVESTMENT MANDATES

It is worth noting that the Barclays Equity Gilt Study, which analyses returns going back to 1899, shows that a portfolio 50% weighted to UK equities and 50% to gilts produced an average real return of 3.1%. Our new return assumptions are only a little behind that. Importantly, the actual outcome of any 20 year period from 1899 until now ranged from -2.7% to +9.8% real per annum.*

When deciding on a suitable mandate for your portfolio, the most important type of risk to consider is the variability of returns. This is most commonly measured by the standard deviation of returns around the mean and is often referred to as annualised volatility. Over the long term, global equities have produced volatility of around 16% whereas cash has been much less volatile – around 1%.

It is generally accepted that over the longer term, in order to generate superior returns, an investor needs to accept a higher level of risk. This is illustrated in the chart on page 13 where we have shown potential outcomes for each mandate based on the returns since 1986. This is a backward looking analysis which, as we have explained on the previous two pages, may not be repeated in the future – but it does support the generally accepted wisdom i.e. that higher returns do come with periods of negative performance.

The chart on page 13 illustrates how the Waverton mandates have performed since January 1986 under four scenarios (set out overleaf), purely based on asset allocation and assuming performance in line with the underlying indices. The analysis is based on 12 month rolling periods and separated out into gains and losses.

*Source: Barclays, Daily Telegraph - Sept 2016

FURTHER EXPLANATION OF POTENTIAL OUTCOMES (cont.)

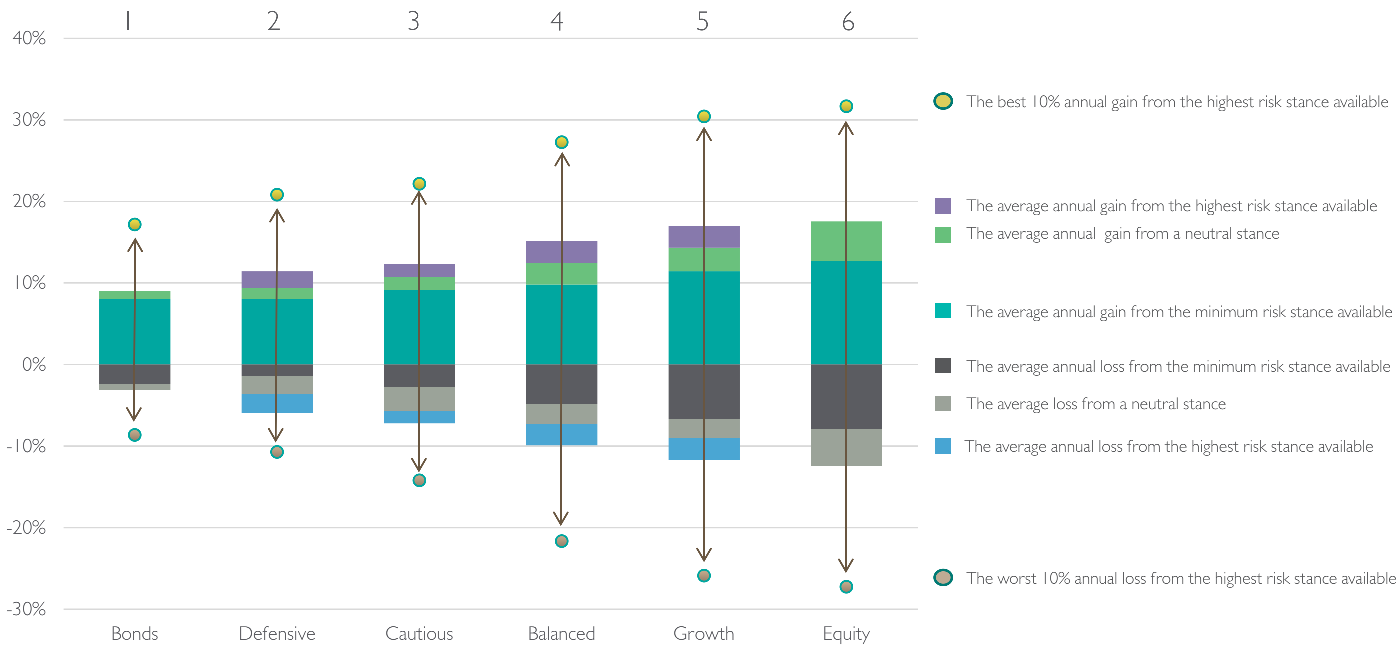
Our scenarios: -

A. The average annual gain/loss from the lowest risk stance available
B. The average annual gain/loss from a neutral stance
C. The average annual gain/loss from the highest risk stance available
D. The best/worst 10% annual gain/loss from the highest risk stance available

Actual outcomes will depend on the performance of markets and the tactical calls taken by the Waverton Asset Allocation Committee. However, the bars give an indication of the range of returns that a client should expect through normal markets (darker green and grey bars) and stressed markets (arrowed lines to extremities). Over the longer term, it would be reasonable to expect periods of stress to be relatively short and so the range of returns shown by the darker green and grey bars should provide a guide as to how your portfolio might perform during the majority of market conditions.

Long term returns can be diminished by investor behaviour during periods of stress (i.e. selling when losses rise to unacceptable levels). This is why it is so important to ensure that investors are in the appropriate mandate at the outset, are comfortable with the level of risk inherent, and prepared to live with the time horizon indicated.

POTENTIAL RANGE OF ANNUAL RETURNS BY MANDATE



Notes: Based on Sterling actual returns achieved since January 1986 (source Datastream - updated July 2016).
Numbers 1-6 refer to question 7 of the Waverton Client Questionnaire (Question 8 for Charities)

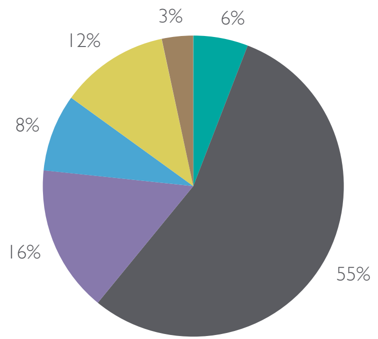
Past performance is no guarantee of future results and the value of such investments and their strategies may fall as well as rise. You may not get back your initial investment. Capital security is not guaranteed.

MARKET-BASED INDICES

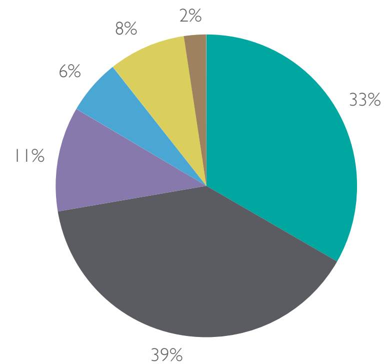
Our Waverton indices are constructed from the MSCI All Country World index, the iBoxx Government and Corporate Bond indices and a suitable 1month cash index for the base currency of the portfolio. These should be looked at in conjunction with our CPI targets and our performance relative to our peer group. The MSCI All Country World index is made up of the large-cap global companies. The constituent weightings change over time and the chart on the left below shows the current geographic weights. The use of this global index reflects our international view and the importance we place on selecting the best quality equities regardless of where they are located.

Some clients are uncomfortable having a low weighting in their home equity market or base currency. In such cases we are able to use a specialist benchmark which allocates a higher, fixed proportion of the equity weighting to the UK. An indicative specialist UK focused index can be seen in the pie chart below on the right. One third of the equity exposure is to the MSCI UK All Cap Index and the remaining two thirds is made up of the MSCI All Country World Index ex UK.

Global geographic equity weight



Specialist UK – focused geographic equity weighting



UK | North America | Europe Ex UK | Japan | Asia Ex Japan | Emerging Markets

REFERENCE INDICES

Mandate	Reference Index	Composition	Alternative Reference Index	Alternative Composition	Indicative Long Term Return
Equity	MSCI AC World	100% MSCI AC World Index	-	-	CPI + 4.5%
Growth	Waverton Growth	75% MSCI AC World Index 7.5% iBoxx Government Bond Index 7.5% iBoxx Corporate Bond Index 10% GBP LIBOR 1 month	Waverton Growth UK Bias	50% MSCI AC World ex UK Index 25% MSCI UK All Cap Index 7.5% iBoxx Government Bond Index 7.5% iBoxx Corporate Bond Index 10% GBP LIBOR 1 month	CPI + 3.5%
Balanced	Waverton Balanced	60% MSCI AC World Index 12.5% iBoxx Government Bond Index 12.5% iBoxx Corporate Bond Index 15% GBP LIBOR 1 month	Waverton Balanced UK Bias	40% MSCI AC World ex UK Index 20% MSCI UK All Cap Index 12.5% iBoxx Government Bond Index 12.5% iBoxx Corporate Bond Index 15% GBP LIBOR 1 month	CPI + 3.0%
Cautious	Waverton Cautious	45% MSCI AC World Index 17.5% iBoxx Government Bond Index 17.5% iBoxx Corporate Bond Index 20% GBP LIBOR 1 month	-	-	CPI + 2.5%
Defensive	Waverton Defensive	33.3% MSCI AC World Index 16.65% iBoxx Government Bond Index 16.65% iBoxx Corporate Bond Index 33.3% GBP LIBOR 1 month	-	-	CPI + 2.0%
Bonds	iBoxx Government Bond Index / iBoxx Corporate Bond Index	50% iBoxx Government Bond Index 50% iBoxx Corporate Bond Index	-	-	CPI + 0.5%

MSCI AC World is net of withholding tax
Based on a Sterling denominated portfolio; indices would be altered appropriately to reflect the currency of the portfolio

GLOSSARY

Alternative Investment: An investment which is not a straight bond or equity – for example a property fund, hedge fund or commodity fund.

Asset Allocation: The proportion in which an investment portfolio is deployed into different asset classes such as equities, bonds and cash.

CPI: Consumer Price Index – i.e. a measure of price inflation.

Bond: Promissory note issued by a government or corporation, usually offering a fixed rate of interest (coupon) and redemption at a fixed date in the future. Often known as a fixed interest security.

Equity: An ordinary share, usually listed on a stock exchange, which offers capital upside at the risk of downside. The dividend income paid out by an equity, if any, is variable. Ranks lower down the capital structure than a bond, and is therefore higher risk.

Exchange Traded Fund (ETF): A regularly traded liquid index fund.

Fixed Interest: See 'Bond'.

Hedge Fund: A pooled investment vehicle which has greater flexibility than a traditional plain vanilla fund. Hedge funds may invest across a wide variety of asset classes, go short, or invest through derivatives.

GLOSSARY (cont.)

Index-linked Stock: A bond which carries a coupon that increases with inflation.

Nominal Return: The simple investment return, taking no account of inflation.

Real Return: The investment return over and above general price inflation.

Reference Index: A market based comparator for evaluating investment performance.

Total Return: Capital appreciation/depreciation plus the income return.

Volatility: The variability of returns (positive and negative), often used as a measure of risk.

Waverton Protection Strategy: A vehicle designed and managed by Waverton (with the help of a major investment bank) to be used as a risk management tool in equity-orientated portfolios. It is designed to increase in value when equity markets are falling, and vice versa. The Waverton Protection Strategy comes in the form of a note listed in Luxembourg and tradeable on a daily basis.

DISCLAIMER

Past performance is no guarantee of future results and the value of such investments and their strategies may fall as well as rise. You may not get back your initial investment. Capital security is not guaranteed.

The information contained within this booklet is intended only to act as a summary guide of the mandates of Waverton Investment Management Limited. Waverton Investment Management Limited does not accept liability for any loss or damage which may arise directly or indirectly out of use or reliance by you, or anyone else, on the information provided in this booklet.

All investments involve risks and this booklet and questionnaire enclosed (where applicable) should not be interpreted as investment advice.

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