Sentry Risk Profiling

May 2019

What is risk profiling?

Determining your risk profile

When putting together an investment portfolio your financial adviser will consider your 'risk profile'. Your risk profile is determined by your ability and willingness to risk the potential loss of your money. Your ability to take risk is determined by your portfolio's ability to sustain losses without putting your goals in jeopardy. Your willingness to take risk is a personality trait that generally changes little over your lifetime.

Some people have a low risk profile which means they have a low tolerance to the risk of capital loss, whereas others have a high-risk profile which means they have a high tolerance to the risk of capital loss.

However, capital loss is only one aspect of risk profiling, fluctuations in the income paid by your investments could be equally troubling to you. The relative importance of these two risks should be discussed during the risk profiling process.

Determining your risk profile requires some time and thought; things you can do to help in the process include:

- Determine your investment timeframe and look at the table of different profiles to see which profile may be suitable to you.
- Decide if you are interested in preserving the spending power of your capital. If you are, then you'll need some growth style investments (bearing in mind these investments come at the risk of capital loss and in some instances, the capital loss could be substantial).
- Decide if receiving a regular income is crucial. If so cash and fixed interest (i.e. lower risk profile) investments may be more appropriate.
- Is the level of income more important in the short term than the long term to you, or is consistency of income more important to your lifestyle?
- Do you need access to your capital?
- Do you want the investment returns to be tax effective?
- Can you achieve your goals without taking a higher-level risk, i.e. is a higher risk profile required for you to meet your goals?

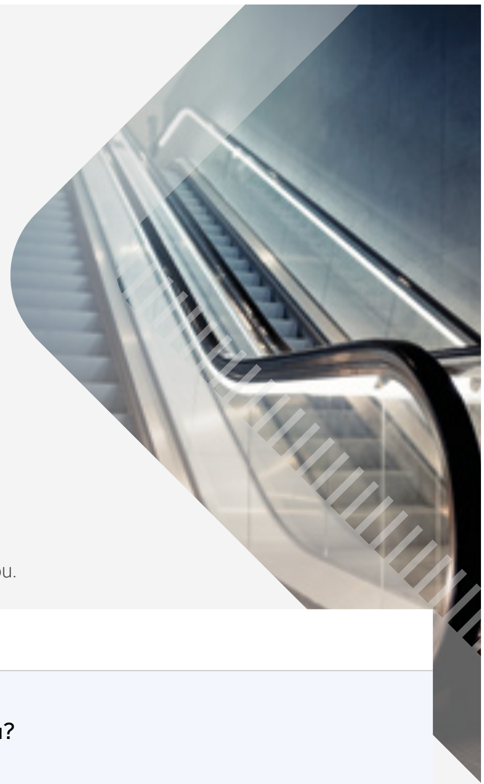
Different objectives may require different risk profiles. For example, your risk profile for a holiday next year may mean that a lower risk profile (i.e. conservative) as the only viable option. However, your superannuation money (which you may not be able to access for many decades) may suit a higher risk profile (i.e. moderate or aggressive).

Your financial adviser will consider your goals and objectives and consider your personal circumstances. If there is a conflict between goals and/or your personal situation and your risk profile, your financial adviser will work with you to determine a suitable risk profile.

The Risk Profile Questionnaire

This questionnaire was developed by academics in the United States and tested on groups of individuals to help determine their willingness to take on risk. Each response has a score value and the total of the score equates to a risk profile. The results of the questionnaire are a guide only (i.e. a benchmark profile) and will be used in discussions between you and your financial adviser to determine a suitable risk profile.

The Grable and Lytton Risk Tolerance Scale



Note If completing this form by hand, please tick the answer appropriate to you.

1	2		Question
0	0	**1**	**As a risk taker, how would your best friend describe you?**
		4	A real gambler.
		3	Willing to take risks after completing adequate research.
		2	Cautious.
		1	A real risk avoider.
0	0	**2**	**You have been given $2,000.** **You can only invest it two ways; you are asked to choose between:**
		1	A sure gain of $1,000
		2	A 50% chance to gain $2,000 and a 50% chance to gain nothing
0	0	**3**	**If you unexpectedly received $40,000 to invest, what would you do?**
		1	Deposit it in a bank account
		2	Invest it in safe non-bank high-quality interest earning investments
		3	Invest it in shares or share trusts
0	0	**4**	**In terms of experience, how comfortable are you investing in shares or share trusts?**
		1	Not at all comfortable
		2	Somewhat comfortable
		3	Very comfortable

0	0	5	**Your trusted friend and neighbour, an experienced geologist, is putting together a group of investors to fund an exploratory gold mining venture. The venture could pay back 50 to 100 times the investment if successful. If the mine is a bust, the entire investment is worthless. Your friend estimates the chance of success is only 20%. If you had the money, how much would you invest?**
◯	◯	1	Nothing
◯	◯	2	One month's salary
◯	◯	3	Three month's salary
◯	◯	4	Six month's salary
0	0	6	**When you think of the word "risk", which of the following words comes to mind first?**
◯	◯	1	Loss
◯	◯	2	Uncertainty
◯	◯	3	Opportunity
◯	◯	4	Thrill
0	0	7	**Some experts are predicting prices of assets such as gold, jewels, collectibles, and real estate (hard assets) to increase in value. Government bond prices may fall. However, experts tend to agree that government bonds are relatively safe. Most of your investment assets are now in high interest government bonds. What would you do?**
◯	◯	1	Hold the bonds
◯	◯	2	Sell the bonds, put half the proceeds into money market accounts, and the other half into hard assets
◯	◯	3	Sell the bonds and put the total proceeds into hard assets
◯	◯	4	Sell the bonds, put all the money into hard assets, and borrow additional money to buy more
0	0	8	**Given the best and worst case returns of the four investment choices below, which would you prefer?**
◯	◯	1	$500 gain best case; $0 gain/loss worst case
◯	◯	2	$1,500 gain best case; $500 loss worst case
◯	◯	3	$5,000 gain best case; $2,000 loss worst case
◯	◯	4	$10,000 gain best case; $5,000 loss worst case
0	0	9	**You have been given $4,000. You can only invest it two ways; if asked to choose which one would you choose?:**
◯	◯	1	A sure loss of $1,000
◯	◯	3	A 50% chance to lose $2,000 and a 50% chance to lose nothing

Person 1	Person 2	No.	Question
0	0	**10**	**Suppose a relative left you an inheritance of $200,000, stipulating in the will that you invest ALL the money in ONE of the following choices. Which one would you select?**
◯	◯	1	A bank savings account.
◯	◯	2	A unit trust that owns shares and bonds.
◯	◯	3	A portfolio of 15 common shares.
◯	◯	4	Commodities like gold, silver, and oil.
0	0	**11**	**If you had to invest $40,000, which of the following investment choices would you find most appealing?**
◯	◯	1	60% in low-risk investments, 30% in medium-risk investments, 10% in high-risk investments
◯	◯	2	30% in low-risk investments, 40% in medium-risk investments, 30% in high-risk investments
◯	◯	3	10% in low-risk investments, 40% in medium-risk investments, 50% in high-risk investments
0	0	**12**	**You are on a TV game show and can choose one of the following. Which would you take?**
◯	◯	1	$1,000 in cash
◯	◯	2	A 50% chance in winning $10,000
◯	◯	3	A 25% chance at winning $20,000
◯	◯	4	A 5% chance at winning $200,000
0	0	**13**	**You have just finished saving for an “once-in-a-lifetime” vacation. Three weeks before you plan to leave, you lose your job. You would:**
◯	◯	1	Cancel the vacation
◯	◯	2	Take a much more modest vacation
◯	◯	3	Go as scheduled, reasoning that you need the time to prepare for a job search
◯	◯	4	Extend your vacation, because this might be your last chance to go first-class

Profile 1: 0 2: 0 | 1 2 **Joint** 0

Conservative	13 - 18
Moderately conservative	19 - 22
Moderate	23 - 28
Moderately aggressive	29 - 32
Aggressive	33 - 47

Risk Profile Asset Allocations

Asset Allocation	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive
Australian shares	13%	22%	31%	39%	44%
International shares	10%	19%	29%	38%	43%
Australian listed property	3%	4%	5%	6%	6%
International listed property	4%	5%	5%	7%	7%
Diversified alternatives	0%	0%	0%	0%	0%
Total growth assets	**30%**	**50%**	**70%**	**90%**	**100%**
Australian fixed interest	27%	21%	15%	4%	0%
International fixed interest	18%	14%	10%	3%	0%
Australian cash	25%	15%	5%	3%	0%
Total defensive assets	**70%**	**50%**	**30%**	**10%**	**0%**

Matching your goals with Investor Portfolios

Investor Profile characteristics					
	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive
Investment Objective	Provides a relatively stable investment by investing primarily in defensive assets while maintaining a small exposure to growth assets.	Provides a relatively stable investment by investing primarily in fixed interest assets while maintaining a moderate exposure to growth assets.	Provides a balanced investment return by investing mostly in a mix of defensive and growth assets.	Provides a potential investment return greater than the diversified balanced strategy by investing mostly in growth assets.	Provide a high growth investment return from exposure to International and Australian Listed Shares.
Suitability	Investors should expect some short to medium term fluctuations in the value of their investment. There is a relatively small probability of a negative return over short to medium term investment periods.	Investors should expect some short to medium term fluctuations in the value of their investment. There is a relatively small probability of a negative return over short to medium term investment periods.	Investors should expect short to medium term fluctuations in the value of their investment. There is a moderate probability of a negative return over short to medium term investment periods.	Investors should expect short to medium term fluctuations in the value of their investment. There is a high probability of a negative return over short to medium term investment periods	Investors should expect to experience short to medium term fluctuations in the value of their investment. There is a high likelihood of a negative return in a given investment period.
Income/growth Objective	Mainly income. Very low growth.	Mainly income. Low growth.	Balance between income and growth	More growth than income	Low income. Mainly growth
Liquidity	Usually within 30 days if using a managed fund.	Usually within 30 days if using a managed fund.	Usually within 30 days if using a managed fund.	Usually within 30 days if using a managed fund.	Usually within 30 days if using a managed fund.
Minimum Investment Term	3 years	5 years	7 years	10 years	10 years

Some asset classes and how they behave

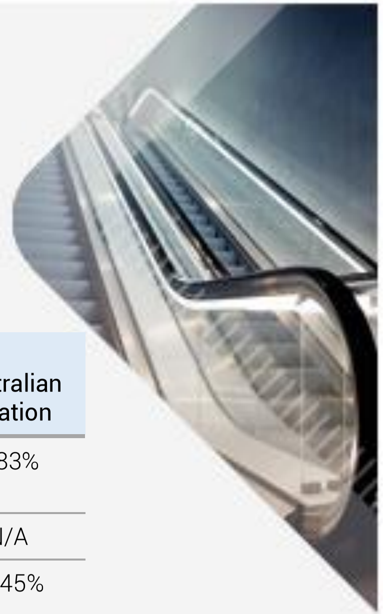
The principal asset classes are:

- Cash
- Fixed interest
- Direct Property
- Listed Shares
- Alternatives

Their characteristics include:

Item	Cash	Fixed Interest	Direct Property	Listed Shares	Alternatives
Liquidity	Usually within 24 hours	Depending on term of investment	Usually a number of months but can be longer.	Usually within 3 days but for some shares there may be no liquidity, e.g. some smaller companies.	Depending on the investment which includes assets such as gold, derivatives, hedge funds. Can be a number of months.
Risk of capital	Usually None	Bank deposits would be regarded as secure whereas some fixed interest products offered by private firms have seen investors lose all their money.	Usually low but it depends on the type of property and the geographical area and pre-vailing economic conditions.	High. Some companies have lost all their value whereas other larger firms have dropped in value by 60% at times.	Some alternative investments have a high risk of capital loss. The value of your investment will most likely fluctuate over time.
Cost to transact	Nil unless there are maintenance fees	Usually nil for the initial purchase but will be some fees to buy and sell.	State government stamp duty to purchase. Optional agent's fees to sell.	Usually low. Full service brokers usually cost around 1% of amount transacted. On-line brokers charge much less	Very much depends on nature of investment
Typical time you should stay invested	Immediate	Depending on term of investment	Usually 5 years or more	Usually 7 years or more	Depends on which asset class is chosen
Tax efficiency	None	None	Good	Good	None to good. Depends on which asset class is chosen.

Historical data



Historical characteristics: 31 December 1980 to 31 December 2018.

Characteristic	Australian Shares	International Shares	Australian Listed Property	Diversified Alternatives	Australian Fixed Interest	International Fixed Interest	Australian Cash	Australian Inflation
Average historical annual return	10.07%	10.31%	10.57%	6.15%	9.27%	10.21%	7.64%	3.83%
Average real return	6.02%	6.25%	6.49%	3.45%	5.24%	6.14%	3.67%	N/A
Worst return over any 12 months	-40.45%	-33.38%	-58.24%	-19.08%	-6.19%	-2.54%	1.73%	-0.45%
Best return over any 12 months	86.13%	93.09%	53.32%	39.04%	25.74%	35.42%	19.10%	12.41%

Source: Bloomberg, InvestSense. This data is based on data since 31 December 1980 to 31 December 2018 (except for Alternatives which is since 31 December 1989).

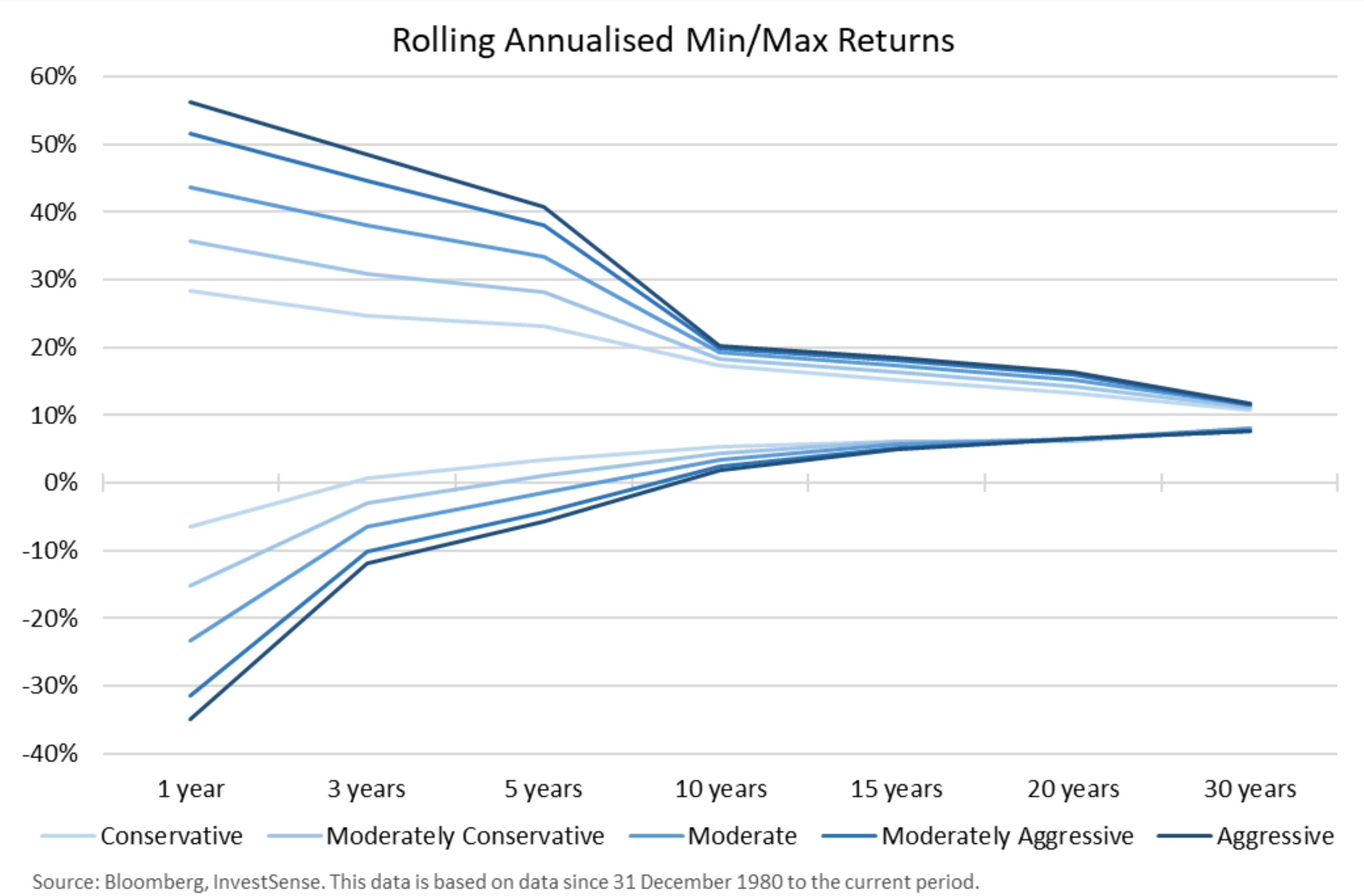
Historical returns: 31 December 1980 to 31 December2018.

Investor Profile	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive
Average historical annual return	9.7%	10.2%	10.5%	10.7%	10.8%
Average real return	5.7%	6.1%	6.5%	6.6%	6.7%
Worst return over any 12 months	-6.5%	-15.3%	-23.4%	-31.5%	-34.9%
Best return over any 12 months	28.3%	35.7%	43.7%	51.6%	56.2%

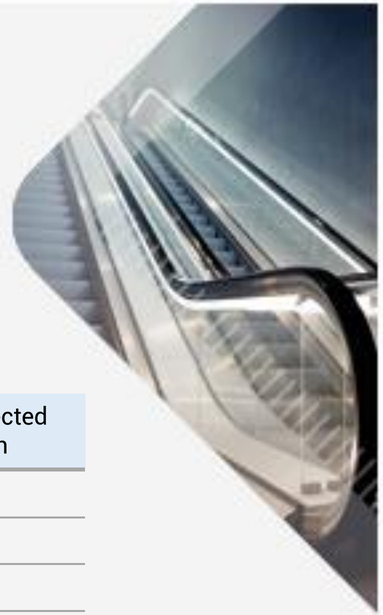
Source: Bloomberg, InvestSense. This is based on data since 31 December 1980 to the current period (31 December 2018).

The chart below illustrates how the various portfolios have performed historically since December 1980 over rolling time periods. So, there will be one twenty-year period from January 1981 and ending December 2001, then another from February 1981 ending January 2001 and so on.

The top lines are the maximum returns the various portfolios have ever achieved over the relevant time frames and the lower line is the minimum return from these hypothetical portfolios over the same time frame.



Source: Bloomberg, InvestSense. This data is based on data since 31 December 1980 to 31 December 2018.



Looking forward

The tables below show the estimated projected returns for each asset class. These are pre-tax returns and include an estimation for franking credits. The expected returns and worst-case losses are forward looking estimates based on current market valuations and are derived on a best efforts basis of what may be expected over the next 10 years. They may change as market dynamics change and are by no means a guarantee of future outcomes.

Forward looking returns (as at 31 December 2018) – asset class:

Asset Class	Income	Growth	Valuation Effect	Nominal Expected Return	Implied Inflation	Real Expected Return
Australian Equities	6.1%	2.5%	-1.8%	6.9%	1.7%	5.2%
International Equities	2.8%	3.6%	-0.8%	5.6%	1.7%	3.9%
A-REITs	5.4%	2.0%	-1.3%	6.2%	1.7%	4.5%
G-REITs	4.4%	1.5%	-0.8%	4.8%	1.7%	3.1%
Infrastructure	4.6%	2.0%	-1.0%	5.2%	1.7%	3.5%
Australian Fixed Interest	2.3%	0.0%	0.0%	2.2%	1.7%	0.6%
International Fixed Interest	1.6%	0.0%	-0.4%	1.2%	1.7%	-0.4%
Cash	1.5%	0.0%	0.0%	1.5%	1.7%	-0.2%

Source: InvestSense

Forward looking expected returns and potential – investor profile:

Investor Profile	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive
Nominal expected return	3.03%	3.92%	4.83%	5.67%	6.12%
Real (after inflation)	1.36%	2.26%	3.16%	4.01%	4.46%
Potential Loss Estimate	13.84%	18.83%	23.85%	27.98%	30.27%

Source: InvestSense Rolling maximum and minimum historical returns from 31 December 1980 to 31 December 2018.

Determining/choosing your risk profile

Option 1	Please Tick	1	2	Joint
From the questionnaire, the investor profile tables and discussions with your adviser please choose the investor profile that you think suits you best. If you believe that you fit somewhere between two profiles then simply tick two profiles.	Conservative	☐	☐	☐
	Moderately conservative	☐	☐	☐
	Moderate	☐	☐	☐
	Moderately aggressive	☐	☐	☐
	Aggressive	☐	☐	☐
	Investor choice (see below)	☐	☐	☐

Option 2 (investor choice)	Include percentages	1	2	Joint
If you believe none of the risk profiles suit you then you are free to choose your own mix of investments. Simply allocate percentages in the area to the right. Please initial here to confirm your selection.	Australian shares			
	International shares			
	Australian property			
	International property			
	Alternatives			
	Australian fixed interest			
	International fixed interest			
	Cash			
	Total	0 %	0 %	0 %

Note: If you have more than one goal, the risk profile may be different for each goal. If so, please provide sufficient notes, identifying each goal/objective and the relevant risk profile.

Goal/ Objective	Risk Profile

Client declaration

I/we have read this document and have chosen the appropriate risk profile(s) which I believe suits my particular circumstances. I understand an exact asset allocation into each asset class may not be possible and that a 10% variation is considered normal.

Client Name ____________ Signature ____________ Date ____________

Client Name ____________ Signature ____________ Date ____________

Adviser Use Only

Sentry's Approach to Risk Profiling

Sentry believes Risk Profiling is multi-faceted activity that involves more than understanding the client's "risk tolerance". All the following need to be considered:

- The demographics of the client.
- The age of the client.
- The employment status of the client.
- Understanding the client's risk aversion.
- Understanding the client's risk capacity.
- Understanding the "risk required" - to reach the client's goal.

Sentry believes that completing a risk profiling questionnaire provides a documented systematic insight into a client's risk tolerance. Paul Resnik[1] says "Risk tolerance is how emotionally comfortable a person is with taking financial risk. For example, how much a person is willing for their portfolio to diminish for a chance to make bigger returns. It is psychological and is best measured with a psychometric tool."

By knowing how comfortable a client is with investment volatility, Sentry believes Advisers can lead customers to be calm when the risk is realised.

Risk Tolerance is the foundation of a client's risk profile.

Risk Capacity is the next layer. Risk Capacity is about the balance between financial assets and human capital & time frames. A younger person with many years to go before their goal date has a larger risk capacity then a older person with a shorter time frame. A person with a goal that is flexible has more risk capacity than a person with a goal that is fixed. For example, a goal to pay for a child's education is more fixed then a goal involving travel. A holiday can be shorter, closer to home, delayed of a time or scaled back in style. Instead of going to Europe business class for 6 weeks for example a trip could be to Britain economy class for 4 weeks.

Risk Required is the final layer. The risk required is the level of volatility the client needs to assume to reach their targets. A goal that requires an investment return of 10% pa will, most likely, involve being comfortable with a certain level of volatility. If the client chooses the level of return the level of volatility is a given. The client can choose to change the goal, but the risk and the return are intrinsically linked,

[1] http://www.riskprofiling.com/How-it-Works accessed 17th October 2017