Cornelian

Fund Guide

Managing Risk in the SVS Cornelian Fund Range

Selecting the risk level of Cornelian Funds

Each of the SVS Cornelian Funds aims to achieve returns in excess of the Retail Price Index (RPI) over a five to seven year investment cycle. In order to assist investors to understand how much risk may be taken by each fund, we link each fund to a Cornelian risk level. These levels specify the upper expected volatility limit within which the fund will be managed.

It is a feature of the SVS Cornelian Funds that they are managed below upper risk limits with no lower risk limit. We are free to reduce risk if we think it is prudent to do so. When managing each fund, we take account of the expected volatility of the asset classes we use and ensure that these remain below an upper volatility limit.

The information below sets out a description of each Cornelian risk level and the target RPI+ rate of return. A is the lowest level of risk and E is the highest.

Cornelian Risk Level A

Targeting RPI+1.0%

This risk level is designed for those investors who are seeking steady returns from their investment and are prepared to take only a small amount of risk. They will be viewing their investment over the medium to long term in order to achieve their goal but will accept that there may be some fluctuations in value over the short term. Underlying assets at this level will include a greater exposure to fixed interest than equities or other assets.

Cornelian Risk Level B

Targeting RPI+1.5%

Investors selecting this risk level will be relatively cautious but will be seeking a reasonable return from their investment. They will be prepared to take a moderate amount of risk over the medium to long term, but will be prepared for fairly frequent fluctuations in value. The underlying assets at this level may have an equal exposure to fixed interest as to equities and other assets.

Cornelian Risk Level C

Targeting RPI+2.0%

A fund with this level of risk is designed for those investors who have a balanced approach. They will be seeking potentially higher long-term returns for which they understand there will be a higher level of risk. These investors will be prepared to accept fluctuations in the value of their investment which may be frequent and potentially significant in value. This risk level is likely to have a greater exposure to equities and other assets rather than fixed interest.

Cornelian Risk Level D

Targeting RPI+2.5%

Investors selecting this risk level will have expectations of higher long-term returns from their investment for which they will be prepared for not only significant fluctuations in value but potentially sustained periods of underperformance. The underlying assets at this level of risk will have a fairly low exposure to fixed interest against equities and other assets.

Cornelian Risk Level E

Targeting RPI+3.0%

This risk level is designed for those investors who are seeking the highest long-term returns from their investment for which they are comfortable with the widest range of fluctuations in value. These investors will be prepared for frequent and at times, sustained periods of poor performance over the short to medium term. The underlying assets at this level will have exposure predominantly to equities and other assets with only a very low exposure to fixed interest.

Calculating the risk level in the SVS Cornelian Funds

Risk Levels and their Application for Investors

To assist us with managing the different risk levels, we utilise data from an external provider to calculate volatility limits. We currently use Distribution Technology (DT). Each fund is managed with an upper expected volatility limit. This upper limit may change from time to time, but we will not exceed the respective limit of each fund. Also, we are not constrained by a lower limit which allows us the freedom to actively manage risk – and to de-risk when we feel it is prudent to do so.

The table below sets out the upper expected volatility limits using the calculations provided by DT and the corresponding Cornelian Risk Level:

Cornelian Risk Level	Distribution Technology Risk Profile	Upper expected volatility limit using DT methodology	Fund name	Expected volatility based on calculations as at 31/10/18*	Synthetic Risk/Reward Indicator (SRRI) as at 26/10/18
A	3	6.30%	SVS Cornelian Defensive	5.54%	3
			SVS Cornelian Defensive RMP	5.03%	3
B	4	8.40%	SVS Cornelian Cautious	7.25%	3
			SVS Cornelian Cautious RMP	6.86%	3
C	5	10.50%	SVS Cornelian Managed Growth	9.03%	4
			SVS Cornelian Managed Growth RMP	9.02%	4
			SVS Cornelian Managed Income	9.53%	4
D	6	12.60%	SVS Cornelian Growth	11.20%	4
			SVS Cornelian Growth RMP	11.42%	4
E	7	14.70%	SVS Cornelian Progressive	13.39%	4
			SVS Cornelian Progressive RMP	13.92%	4

*The most up-to-date Expected Volatility figures can be found on the fund factsheets available on our website: www.cornelianam.com

Expected Volatility

The expected volatility of each fund is expressed as a range of returns which may be expected from each portfolio using 15 year historical returns based on the weights of each type of asset held in each fund. The wider the range of likely returns, the higher the level of expected volatility. In the past, assets such as cash and fixed income have exhibited relatively low levels of volatility, whilst equities have exhibited a higher level of volatility.

Assessing Expected Volatility

The expected volatility of each asset class in which the funds invest is based upon Distribution Technology's 'Capital Market Assumptions' which incorporate the long term historic performance of each asset class and the correlations exhibited between asset classes. We input the asset allocation weights of each fund into Distribution Technology's system 'Dynamic Planner' in order to determine expected volatility and return projections. This data is kept up to date and allows us to undertake a robust and repeatable review of the expected volatility of each portfolio.

The risk analysis is run at least once a month and also prior to any asset allocation change that would increase the level of expected volatility. We would only implement the suggested change in asset allocation when we know the result will produce an asset allocation for which the expected volatility of the fund is below its stated upper expected volatility limit.

Setting the Risk Limits

Each fund's upper expected volatility limit is set at the upper boundaries of Distribution Technology's risk bands. These bands are constructed by dividing the efficient frontier asset allocation strategy into ten uniform volatility bands.

The expected volatility of each asset class is calculated over a rolling 15-year period. This is reviewed quarterly and may move, based on the historical trend observed. These moves in expected volatility of asset classes can, from time to time, result in slight moves in the boundaries of Distribution Technology's risk bands and in the upper expected volatility limits set for the funds. These movements will ensure that the upper risk limits of the funds remain aligned to the 10 uniform volatility bands. However, it should be noted that the SVS Cornelian Funds are managed below these upper risk limits of the bands and we retain flexibility to reduce risk if this is considered necessary.

A fund's upper expected volatility is not the same as a fund's actual (or historic) share price volatility.

Cornelian Risk Levels & Synthetic Risk Reward Indicators

The upper expected volatility figures aim to describe the range of returns that may be expected from each fund using 15-year historical returns based upon the weights of each type of asset held in each fund. The wider the range of likely returns, the higher the level of risk.

The Synthetic Risk Reward Indicators (SRRIs) appear in the Key Investor Information Documents (KIIDs) and the accounts for the funds and describe the historical volatility of the performance of each fund.

Therefore:

- The upper expected volatility of a Cornelian risk level is the limit below which we will manage the fund.
- The expected volatility is the expected outcome based on the investments that we hold in a fund at any one time.
- The Synthetic Risk Reward Indicator is the actual, historical volatility observed from the past performance of the fund.

For full information on the SVS Cornelian Funds please refer to the Fund Prospectus on our website: www.cornelianam.com

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