

Summary of Investment Risks

Broadly, the risk in investing is that an investor may receive less or more income than they expect, that the capital value of their investment can fall as well as rise and that they may lose some or all of their capital.

Risk and Return - The higher the investment risk, the higher the expected return or conversely the higher the expected return, the higher the investment risk. In other words, in order to achieve higher returns investors must be willing to take more risk or if they wish to minimise risk, they must be willing to accept lower returns.

Mismatch Risk – An investment may not be suitable for the investor’s needs, objectives and risk profile. Matching investments with investor’s tolerance for risk and time horizon requires active monitoring as these are subject to change. Longevity risk for example is the risk that an investor will outlive their investments.

Market Risk – Economic cycles, technological, political or legal conditions and even market sentiment cause investment markets and investment returns to rise and fall. Anticipating market timing is very difficult as no two economic cycles are alike.

Lack of Diversification Risk – Investing in a small number of assets or in only asset class exposes investors to higher risk. Diversification across markets, asset classes, market segments, managers and styles reduces overall risk.

Gearing Risk – Gearing or the use of borrowed money can increase the exposure to the underlying investments and as such can magnify losses as well as gains.

Business Risk – Any individual asset or groups of assets can fall in value or fail to deliver expected income for a range of operational, management or business environment reasons. For properties this includes the risk of losing tenants.

Interest Rate Risk – Changes in interest rates can have a negative (as well as a positive) impact on investment values and income returns.

Inflation Risk - The risk that returns and capital value may not keep pace with inflation and that the purchasing power of capital is eroded over time.

Credit Risk - The risk that the institution you have invested with may not be able to make the required interest payments or repay your funds.

Duration Risk – The risk that re-investment terms will have deteriorated by the time the cash from current investments becomes available.

Currency Risk – Investments denominated in overseas currencies can rise and fall when the value of the overseas currency changes in relation to the Australian dollar.

Liquidity Risk – The risk that an investor may not be able to convert the investment readily to cash when they need to either due to an absence of buyers for the investment or an absence of a market in which to sell the investment.

Counterparty Risk - Investing involves contracts and counterparty risk is the risk that the other party to the contract cannot meet their obligations under the contract.

Hedge Fund Risk – Hedge funds have potential to deliver positive returns under all market conditions, including falling markets. They typically have low correlation to traditional asset classes and may involve specialised strategies such as short selling, program trading, swaps, arbitrage, and derivatives trading. The risks with hedge funds are that they may charge higher fees; may be poorly regulated; are often highly leveraged; can be highly illiquid; offer low investment transparency and rely heavily on the skill and judgement of the manager.

Growth and Defensive Assets

Investment assets can be divided into two broad classes:

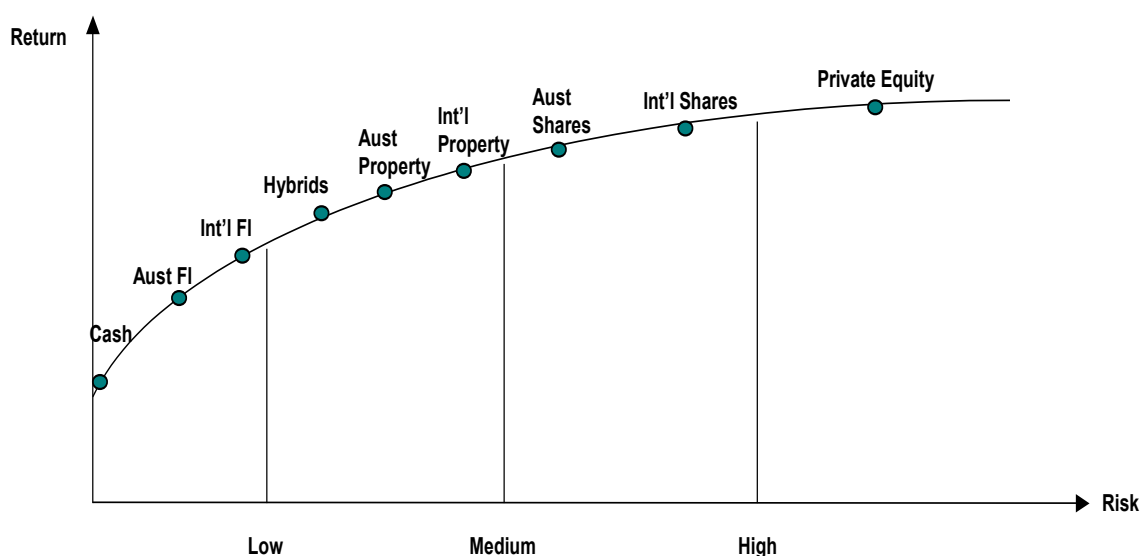
Defensive assets – these include cash and fixed interest (or bonds) and will generally provide predictable, stable and consistent returns over shorter periods. Cash is the least risky investment as its capital value will not change, while fixed interest (or bonds) can lose value when interest rates rise or as credit risk is repriced.

Growth assets – these include listed shares, private equity, property and alternative investments and can deliver higher returns over the long term, but both their value and their income returns can fluctuate in the short term and returns are not readily predictable.

Note that hybrids such as convertible notes, preference shares and even commodities have characteristics of both growth and defensive assets.

Risk and Return

The diagram below depicts the indicative typical relationship between risk and return of these major asset classes:



Asset Class Risks

The table below provides an indication of the types of investment risks borne by each asset major class:

| Risks | Cash | Australian Fixed Interest | International Fixed Interest | Listed Australian Hybrids | Listed Australian Property | Listed International Property | Listed Australian Shares | Listed International Shares | Private Equity | Alternatives |
|---------------|------|---------------------------|------------------------------|---------------------------|----------------------------|-------------------------------|--------------------------|-----------------------------|----------------|--------------|
| Business | | | | • | • | • | • | • | • | • |
| Interest Rate | • | | | • | • | • | • | • | • | • |
| Inflation | • | | | | | | | | | • |
| Credit | | • | • | • | | | | | | • |
| Duration | | • | • | • | | | | | | • |
| Currency | | | • | | | • | | • | | • |
| Liquidity | | • | • | | | | | | • | • |
| Counterparty | | • | • | • | • | • | • | • | • | • |
| Hedge Funds | • | • | • | • | • | • | • | • | • | • |

NOTE: An investment within an asset class may not be exposed to each of the risks associated with that asset class.

Disclaimer // This document has been provided for the exclusive use and benefit of Pitcher Partners Investment Services, our clients and our Authorised Subscribers. It must not be distributed to, used, or relied on by any other person, without our prior written consent. Data is sourced from third parties and is considered to be accurate and reliable at the date of publication, although we cannot guarantee accuracy and reliability, nor do we accept responsibility for errors and omissions. These figures are therefore subject to change. This information is of a general nature and has been prepared without taking into account your objectives, financial situations or needs. Accordingly, before acting on the information, you should speak to your Pitcher Partners Investment Services' representative and consider the appropriateness of the information having regard to your objectives, financial situation, or needs. To the maximum extent permitted by law, neither we, nor any of our representatives, will be liable for any loss, damage, liability, or claim whatsoever suffered or incurred by you or any other person arising directly or indirectly out of the use or reliance on this information, or any changes made to this document without our prior written consent.