

Pitcher Partners *Investment Services*

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 investors needs, objectives and risk profile. Matching investments with investors 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.

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Growth and Income Assets

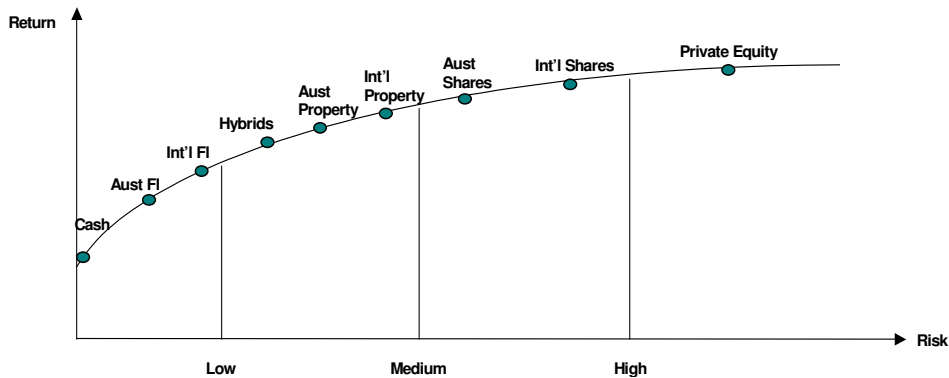
Investment assets can be divided into two broad classes:

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.

Income 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.

Note that hybrids such as convertible notes, preference shares and even commodities have characteristics of both growth and income 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	Aust Fixed Interest	Int'l Fixed Interest	Listed Aust Hybrids	Listed Aust Property	Listed Int'l Property	Listed Aust Shares	Listed Int'l Shares	Private Equity	Alternative
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.