Risk Disclosure Statement

INVESTMENT RISK

General Risks

All investments involved a degree of risk. Risk is unavoidable. Many risks are outside of Intrinsic's control.

Risk arises from the fact that no one is certain of what is going to eventuate in the future. In these conditions of uncertainty, individuals will make decisions that could result in loss.

Aside from the risk of making a financial loss, there is also the risk that the investment may not perform as well as expected. For example, the interest earned on a bank account may not be greater than consumer inflation meaning that the investor has suffered a loss in purchasing power (and relative wealth).

Since risk cannot be avoided, it must be understood and managed.

It is generally accepted that over the long term when comparing investments:

- Assets that produce low returns are low risk and have low volatility of price movement (e.g. cash);
- Assets that produce high returns are high risk and have high price volatility (e.g. derivatives securities);
- A portfolio containing a blend of both low return and high return assets spreads portfolio risk (investment diversification).

Asset prices are volatile because as new information becomes available, investors are constantly changing their expectations of the future. Investors often make mistakes in assessing the impact of new information on asset prices and this can also be reflected in price volatility, creating profitable opportunities for investors with better judgement.

Better judgement often comes from a better understanding of the returns and risks involved in a specific investment. In managing investment risk, investors need to reduce the risks that they do not want to be exposed to and increase the expose to risks that they are prepared to take.

However, history shows that many investment assets experience periods when their prices move in the same direction (up and down), thereby reducing the intended benefits of diversification.

Risk Associated with Derivatives

Derivatives have long been used by investment managers as part of their portfolio management activities as they offer many advantages including the ability to reduce investment risk or increase returns or both.

However, unlike the physical assets (e.g. shares) on which derivatives are based, they have finite lives (i.e. they expire at a known date in the future). This is one source of risk inherent in derivative securities. Put another way, time might run out before an investor's forecast of the future has time to come to fruition. Further, they initially require a much lower capital outlay than physical assets. The outlay is such that returns as a percentage of outlay can be many times greater than that offered by the physical asset. As a result of both, market trading in derivatives securities can be high and derivates can have high price volatility.

Further information

Further information concerning investment risk can be found in the **Intrinsic Financial Services Guide**

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