CRAIGS®
INVESTMENT PARTNERS

Introduction to your risk profile and asset allocation

NZX Firm

Introduction

The purpose of this document is to help you understand your attitude to risk, and how your tolerance to risk translates into the construction of your portfolio.

Understanding your attitude to risk requires you to consider your financial position and the goals you have for the future, your life stage and investment timeframe. By completing our Risk Questionnaire at the end of this document, you will get an understanding of your risk profile, and subsequently how this correlates to a suggested asset allocation.

This document offers sample portfolios to help you understand, at an introductory level, how the combination of different asset classes can either increase or decrease the overall level of 'risk'.

The information provided in this document here is an introduction and is for illustrative purposed only.

For further advice, you should speak to a Craigs investment adviser to discuss your risk profile, investment goals, and the suitability of particular investments.

Introducing risk and return

Understanding investment risk and determining what level of risk you feel comfortable with before you invest is an important part of the investment decision process.

In the investment world, risk can assume many guises; be it the risk posed by inflation silently eroding the spending power of savings, to the fluctuation in the value of an investment over time (either positive or negative) due to market movements, changes in interest or exchange rates, or the permanent loss of capital.

It is important to understand the different risks relating to investing, how they vary across (and within) asset classes and the opportunities provided by spreading investment across a range of asset classes, regions, sectors and securities.

Your risk profile

Your risk profile takes into account your overall appetite for risk, your financial position, your goals and your investment timeframe. We recommend assessing this regularly, or as your situation changes. This way, you can ensure that you don't expose yourself to too much risk, or alternatively take a too conservative approach and possibly not achieve the potential returns you would like, based on your investment timeframe. Our Risk Questionnaire takes you through a series of questions to determine your individual appetite for risk.

Risk and return trade-off

Cash, fixed income, property and shares (also referred to as equities or stocks) are the four main asset classes in the investment world. Each of these asset classes has different risk and return characteristics - cash is often viewed as the lowest risk, while shares are deemed higher risk.

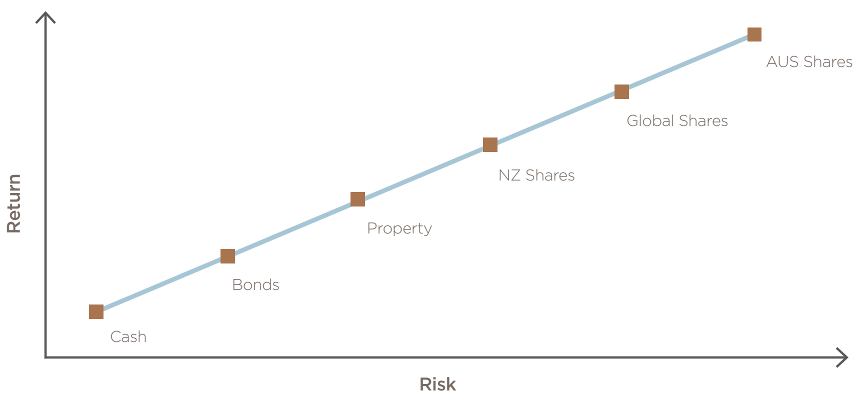
Investing requires a balance between risk and return. The key is determining what level of investment risk you feel comfortable with before you invest.

Generally speaking, a lower level of risk is commonly associated with lower potential returns. Conversely, higher levels of risk are associated with higher potential returns.

Chart 1 below shows the relationship between risk and return of different asset classes in simplistic terms.

The risk return trade-off is a key decision in the investment process and an investor's potential returns will be limited by their tolerance for risk.

CHART 1: RISK AND RETURN



The chart is for illustrative purposes only indicating the risk and return profiles from a NZD perspective. It should not be regarded as investment advice. This does not take into account your financial position, financial needs, financial goals or risk tolerance. We recommend talking to an investment adviser before making any investment decisions. Source: Craigs Investment Partners.

Volatility is one method of measuring the risk of various investments

To explain the concept of investment risk in a bit more detail we can look at returns versus volatility of one asset class against another. While there is no perfect measure that encapsulates all the risks related to investing this is a useful method of measuring investment risk.

The more certain an investment's return, the lower the investment risk, or variation from the expected return (annualised standard deviation).

As illustrated by chart 2, cash and fixed income typically provide known income streams hence have a lower variation of returns (standard deviation). These are therefore deemed lower risk investments compared to property and shares where both income streams and capital value can vary considerably over time. The trade off for this variation or uncertainty is however typically a higher potential return.

CHART 2: VOLATILITY AND RETURNS

KEY: Historical annualised standard deviation (volatility / variation from expected return)

Historical annual return

Source: Bloomberg, Craigs Investment Partners. Analysis period January 1999 - current. Note: The returns from Global shares and Australian shares have been negatively impacted by a strong NZ dollar during the period covered in this chart.

Impacts of inflation

It is important to remember that even lower risk assets, such as cash (NZ Fixed Income) are not risk free.

While a key advantage of income assets is known cash flows (interest payments, return of capital), the major disadvantage is the erosion of capital over time due to inflation.

The impact inflation can have on the spending power of money is often overlooked by investors as it is not as obvious as the potential impact of volatility on equity values.

However the impact on the value of savings can be devastating over time. Chart 3 shows the rate of return of $1,000 invested in bank deposits or NZ shares in 1967 comparing these with inflation over that time as well as the outcome of doing nothing by keeping the $1,000 under the mattress.

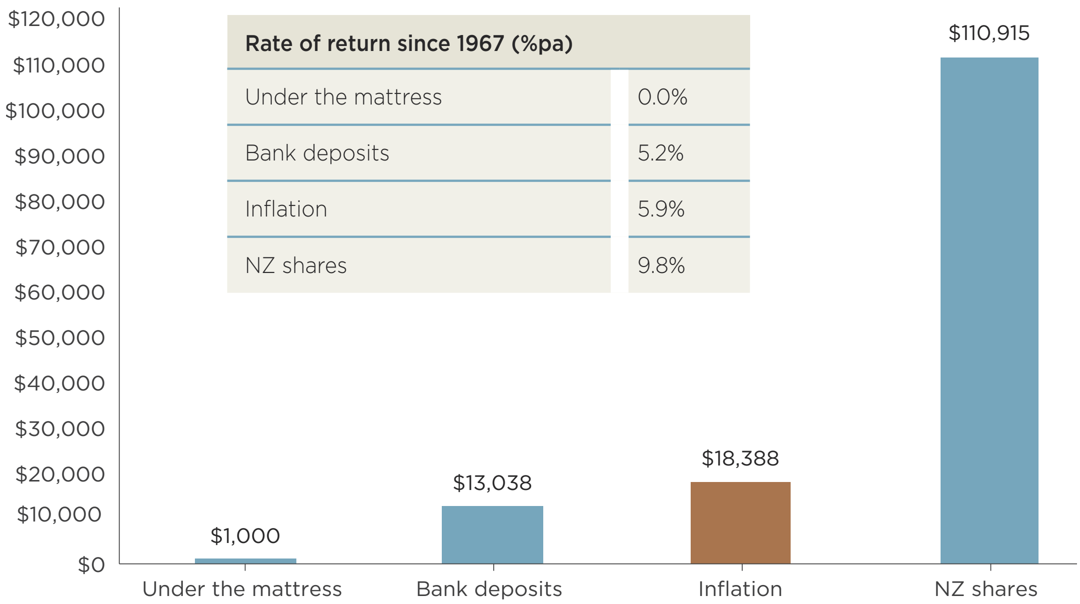
The outcome

Averaging 6.0% pa since 1967, inflation has eroded the purchasing power of $1,000 by 95.0%.

The spending power of $1,000 invested entirely in bank deposits would also have failed to keep pace with inflation over this period.

NZ shares have been the only asset class that has not only protected the spending power of an investor's capital over time but has also provided growth in income and accumulation of wealth in real terms (i.e. after inflation).

CHART 3: OWN SHARES TO HELP PROTECT THE SPENDING POWER OF CAPITAL FROM BEING ERODED BY INFLATION



Source: Reserve Bank of New Zealand, Bloomberg, Craigs Investment Partners. Share returns are calculated using the Barclays Capital Index prior to 1986 and the NZSE Gross Index from 1986 to current. This index excluded dividends up to 1986, included gross dividends from 1987 to 2000 and net dividends since then – on balance it includes dividends reinvested net of tax. The six month term deposit rate was sourced from the RBNZ, tax has been deducted from interest at a rate of 30% and interest has been compounded. Inflation has been calculated using CPI data.

Diversification - the foundation of prudent investment

Chart 4 shows the returns from a range of assets for each year since 1999. The best performing asset is coloured light blue and the worst is dark blue. Every asset except the balanced portfolio has, at one time or another delivered the best or worst return. A balanced portfolio, made up of a combination of assets is a picture of stability in comparison to single assets. Over the long term, the balanced portfolio has delivered above average returns that are not far behind the best performing assets, despite being far less volatile than the top performers.

CHART 4: RETURNS FROM A RANGE OF ASSETS AND THE PRIVATE WEALTH RESEARCH BALANCED PORTFOLIO 1999 - 2017

Year	New Zealand shares	New Zealand listed property	Australian shares	PWR balanced portfolio	New Zealand house prices	New Zealand fixed income	New Zealand cash	World Shares
1999	17.0%	-6.4%	25.1%	13.7%	1.2%	0.1%	4.8%	27.0%
2000	-9.1%	7.3%	4.1%	10.3%	0.0%	11.1%	6.5%	2.6%
2001	16.7%	12.1%	6.7%	5.2%	4.7%	5.1%	6.0%	-11.3%
2002	4.2%	10.4%	-19.4%	-4.7%	7.9%	8.4%	5.8%	-36.6%
2003	26.5%	13.4%	24.1%	10.3%	19.3%	6.4%	5.6%	7.3%
2004	28.0%	20.0%	20.8%	17.8%	13.5%	5.5%	6.1%	5.1%
2005	9.0%	19.7%	19.9%	10.4%	13.5%	6.9%	7.2%	15.8%
2006	18.7%	24.9%	30.2%	19.2%	11.9%	4.2%	7.7%	17.1%
2007	-0.3%	-4.3%	20.2%	4.2%	4.5%	3.9%	8.5%	0.7%
2008	-33.7%	-20.8%	-36.7%	-12.3%	-4.8%	15.8%	8.8%	-21.1%
2009	19.4%	11.8%	42.6%	11.7%	9.6%	1.7%	3.4%	4.8%
2010	3.1%	3.4%	9.4%	4.3%	-2.2%	7.0%	3.0%	4.1%
2011	1.4%	11.2%	-11.3%	1.6%	0.9%	13.3%	2.9%	-4.6%
2012	27.1%	20.5%	13.5%	11.6%	9.6%	4.8%	2.7%	9.3%
2013	18.3%	3.9%	3.5%	7.0%	9.8%	-2.0%	2.7%	28.5%
2014	17.2%	24.2%	1.4%	9.4%	5.4%	7.8%	3.4%	11.1%
2015	13.6%	14.5%	5.7%	9.5%	3.3%	5.4%	3.4%	13.7%
2016	9.6%	2.7%	8.7%	5.5%	11.0%	3.4%	2.5%	6.6%
2017	22.6%	12.8%	19.0%	13.2%	4.7%	5.5%	2.0%	20.2%
Total return pa	**9.9%**	**8.9%**	**8.2%**	**7.5%**	**6.3%**	**5.9%**	**4.9%**	**4.0%**
Best return	28.0%	24.9%	42.6%	19.2%	19.3%	15.8%	8.8%	28.5%
Worst return	-33.7%	-20.8%	-36.7%	-12.3%	-4.8%	-2.0%	2.0%	-36.6%
No. of negative years	3	3	3	2	2	1	0	4
Mean	9.7%	9.5%	9.7%	7.6%	6.1%	6.6%	5.4%	6.2%
Historical volatility	11.7%	9.3%	15.0%	5.8%	9.0%	3.0%	0.6%	13.2%

Source: Bloomberg, Craigs Investment Partners. The performance figures shown are compound returns in NZ dollars and are before fees. The PWR balanced portfolio performance assumes that net dividends are reinvested and that the portfolio is rebalanced to original weightings at the end of each month. The 90 Day Bank Bill has been used as a proxy for the portfolio's cash exposure while NZ Govt Bonds (5yr) has been used as a proxy for the portfolio's bond exposure. Indices used include; New Zealand cash - NZX NZ Gross Returns 90 Day Bank Bills, New Zealand fixed income - SPX/NZX NZ Government Bond Index, New Zealand house prices - REINZ Median House Price, New Zealand shares - S&P/NZX All Gross Index, New Zealand listed property - S&P/NZX Real Estate Gross Index, Australian shares - All Ords Accumulation Index, World Shares - MSCI World Gross Index, US shares - S&P 500 Total Return Index, UK shares - FTSE 100 Total Return Index, Emerging Market shares - MSCI Emerging Markets Free Gross, European shares - MSCI Europe Gross Index, Japanese shares - Nikkei Net Total Return Index.

Introducing strategic asset allocation

Determining what portion of a portfolio should be invested into each asset class is called asset allocation. Cash and fixed income are commonly referred to as income assets, while shares and property are known as growth assets. It is the asset allocation and split between income and growth assets that will dictate a portfolio's risk and return.

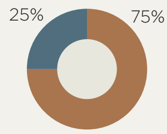
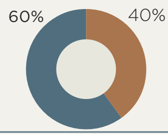
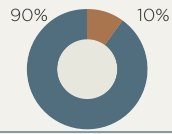
By investing in a mix of assets and diversifying investments within asset classes you can reduce the overall risk of your portfolio and provide smoother returns over the long-term.

Below shows a selection of sample portfolio allocations showing the split between income and growth assets for different risk profiles.

Our sample portfolio allocations for differing risk profiles.

Portfolio profile

Income assets % of total
Growth assets % of total

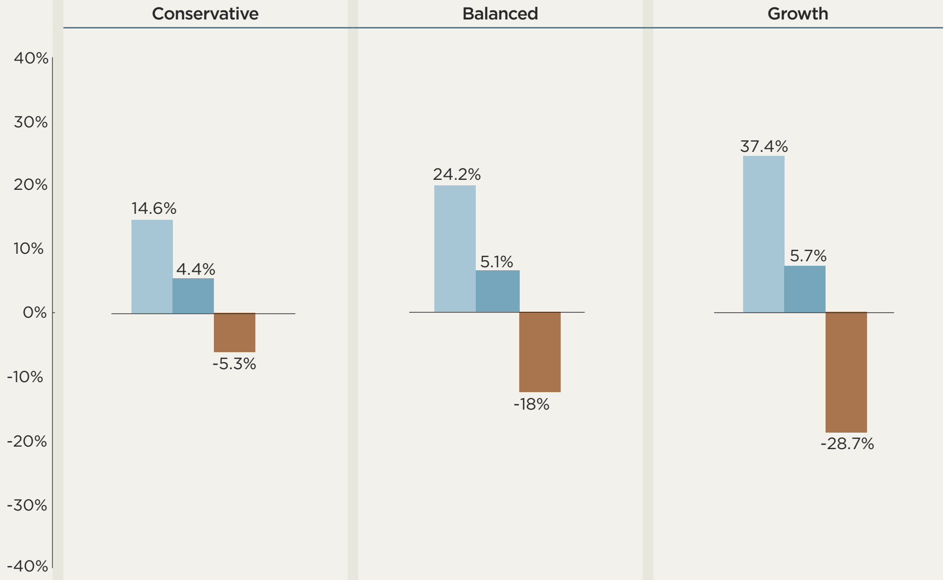
	Conservative	Balanced	Growth
			
Some key risks	Low inflation protection. Interest rate changes. NZ focussed.	Sharemarket volatility. Interest rate changes.	Sharemarket volatility. Exchange rates.

Investor suitability

	Conservative	Balanced	Growth
Suitability - The type of investor/s that may be suited to each portfolio. Note, these comments are general only - there will be many exceptions to the examples detailed here.	People focussed on capital protection and current income rather than inflation protection. Also those who need to draw on capital in the near-term.	People who have some need for current income but future income and growth is a priority. Need to be comfortable with above-average risk.	People who have a long-term investing time horizon and more focus on future than current income. They must be able to tolerate a high level of risk.

Rolling 12 month returns (best, worst, expected) 1993 - current

Best
Long-run expected return
Worst



Source: Bloomberg, Craigs Investment Partners. The performance figures shown are compound returns in NZ dollars. Expected return and risk figures are based on Craigs Investment Partners estimates. The historical asset allocation returns are based on actual historical data and geographical indices and weighted according to the selected asset allocation of the portfolio. The indices used include; Fixed Income - S&P/NZX NZ Government Bond Index, NZ - S&P/NZX All Gross Index, Property - S&P/NZX Real Estate Gross Index, Australia - All Ords Accumulation Index, Global - MSCI All Countries World Gross Index. All returns are before fees and the indices used are net of tax except the Australian All Ords Accumulation Index and the MSCI All Countries World Gross Index.

Conservative portfolio allocation profile

Investment objective

This is a lower risk portfolio allocation that has as its primary focus the provision of a highly reliable income stream and protection of the capital value of the portfolio.

Who is this portfolio suitable for?

The conservative portfolio allocation best suits investors who have a very low tolerance for risk and volatility in the value of their investments. People who are reliant on receiving a regular and known income stream, and are less concerned with inflation protection or longer-term capital growth should consider this allocation.

Indicative returns

We expect the gross return from this portfolio to be between 3.9% to 4.9% per annum. Almost all of this return will consist of income rather than growth. There may be some variance in annual returns, either up or down, depending on the performance of the small proportion of growth assets in the portfolio.

Risks

This portfolio will have a relatively low level of volatility. As it has only a moderate exposure to growth assets it is exposed to erosion in its real value by inflation. This risk will be exacerbated if most, or all, of the income stream is spent rather than reinvested. With only 11% of the portfolio allocated to overseas assets, the portfolio is heavily exposed to the New Zealand dollar. Movements in interest rates will also heavily affect returns.

Portfolio strategy

Cash – A range of call and term deposits up to 90 days, as and when available and appropriate.

Fixed income – With 70% of the portfolio made up of New Zealand fixed income, the most important strategy to apply to this portfolio is the maintenance of a laddered portfolio of high quality fixed income investments. For larger portfolios, investors may wish to add an allocation to global bonds (hedged up to a maximum of 25% of the allocation to fixed income).

Property – A portfolio of New Zealand listed property trusts.

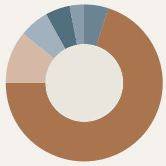
Shares – A range of blue chip New Zealand and Australian shares selected from the PWR New Zealand and Australian portfolios and a portfolio of global funds selected from the PWR global portfolio.

Questions?
Talk to an investment adviser by phoning 0800 272 442 or visit our website **craigsip.com**

Profile

Sample asset allocations

Cash	5%
NZ fixed income*	70%
NZ equities	11%
Australian equities (unhedged)	6%
Global equities (unhedged)	5%
Property	3%



*Can include an allocation to global bonds (hedged up to a maximum of 25% of the allocation to fixed income).

Investor description

Risk tolerance	Low tolerance to loss
Investment horizon	5 years plus
Current income requirement	Crucial

Indicative risk profile

Worst rolling 12m return observed	-5.3%
Best rolling 12m return observed	14.6%
Indicative forecast gross return (pa)	3.9% to 4.9%
Expected volatility of annual returns	4.6%
Probability of negative return in one year	1 year in 5.9
Range of rolling 1yr returns	-5.3% to 14.6%
Range of rolling 5yr returns	3.7% to 8.1%

Balanced portfolio allocation profile

Investment objective

This portfolio should be used as the benchmark allocation that provides longer-term investors with a well-diversified portfolio. It should deliver a balance of income and growth over the medium to long-term.

Who is this portfolio suitable for?

Long-term investors seeking a balanced portfolio and a mix of income and growth. Even those investors who have little or no need for income may want to consider this allocation if they wish to limit the risk profile and volatility of their portfolio. This allocation is also appropriate for people saving for their retirement, who want a balanced portfolio.

Indicative returns

This portfolio allocation aims to provide a gross return that is between 4.6% to 5.6% per annum. These returns will vary depending on movements in interest rates and the performance of growth assets.

Risks

A feature of this portfolio is that it is a well-balanced portfolio. As such, its exposure to any single risk is limited. However, 60% of the portfolio is invested in growth assets and is therefore exposed to the inherent volatility of this asset class. Movements in interest rates will also impact on the returns from the fixed income investments.

Portfolio strategy

Cash – A range of call and term deposits up to 90 days, as and when available and appropriate.

Fixed income – With 36% of the portfolio made up of New Zealand fixed income, the most important strategy to apply to this portfolio is the maintenance of a laddered portfolio of high quality fixed income investments. For larger portfolios, investors may wish to add an allocation to global bonds (hedged up to a maximum of 25% of the allocation to fixed income).

Property – A portfolio of New Zealand listed property trusts, complemented with an overseas property fund to provide additional diversification if appropriate.

Shares – A range of blue chip New Zealand and Australian shares selected from the PWR New Zealand and Australian portfolios. The global portfolio should be made up of global funds selected from the PWR global portfolio, to which can be added direct stocks or sector/market focussed funds to provide more active positions if appropriate.

Questions?
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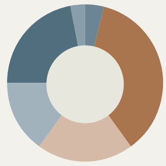
Profile

Sample asset allocations

Asset	Allocation
Cash	4%
NZ fixed income*	36%
NZ equities	20%
Australian equities (unhedged)	15%
Global equities (unhedged)	22%
Property	3%



*Can include an allocation to global bonds (hedged up to a maximum of 25% of the allocation to fixed income).

Investor description

Risk tolerance	Medium - high tolerance to risk
Investment horizon	9 years plus
Current income requirement	Medium

Indicative risk profile

Worst rolling 12m return observed	-18.0%
Best rolling 12m return observed	24.2%
Indicative forecast gross return (pa)	4.6% to 5.6%
Expected volatility of annual returns	9.1%
Probability of negative return in one year	1 year in 3.5
Range of rolling 1yr returns	-18.0% to 24.2%
Range of rolling 5yr returns	1.0% to 12.5%

High growth portfolio allocation profile

Investment objective

To provide long-term growth with less emphasis on delivering income.

Who is this portfolio suitable for?

Investors seeking growth who have a long-term timeframe and a high tolerance for risk. It may suit younger people who have many income-earning years ahead of them and wish to build up an investment portfolio.

Indicative returns

Returns will vary considerably given the inherent volatility of shares and property investments, which make up 90% of this portfolio. The expected gross return from this portfolio allocation is between 5.2% to 6.2% per annum over the long-term.

Risks

This portfolio is highly exposed to sharemarkets and its performance will therefore depend heavily on the returns from this asset class. With 63% of the portfolio invested globally, exchange rate movements will also impact on returns. We estimate this portfolio allocation may incur a negative 12-month return once every three years.

Portfolio strategy

Cash – A range of call and term deposits up to 90 days, as and when available and appropriate.

Fixed income – The most important strategy to apply to a fixed income portfolio is the maintenance of a laddered portfolio of high quality fixed income investments. For larger portfolios, investors may wish to add an allocation to global bonds (hedged up to a maximum of 25% of the allocation to fixed income).

Property – A portfolio of New Zealand listed property trusts, complemented with an overseas property fund to provide additional diversification if appropriate.

Shares – A range of blue chip New Zealand and Australian shares selected from the PWR New Zealand and Australian portfolios. The global portfolio should be made up of global funds selected from the PWR global portfolio, to which can be added direct stocks or sector/market focussed funds to provide more active positions if appropriate.

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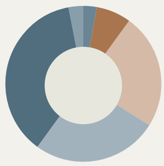
Profile

Sample asset allocations

Cash	3%
NZ fixed income*	7%
NZ equities	24%
Australian equities (unhedged)	26%
Global equities (unhedged)	37%
Property	3%



*Can include an allocation to global bonds (hedged up to a maximum of 25% of the allocation to fixed income).

Investor description	
Risk tolerance	High tolerance to risk
Investment horizon	15 years plus
Current income requirement	Low

Indicative risk profile	
Worst rolling 12m return observed	-28.7%
Best rolling 12m return observed	37.4%
Indicative forecast gross return (pa)	5.2% to 6.2%
Expected volatility of annual returns	13.6%
Probability of negative return in one year	1 year in 3
Range of rolling 1yr returns	-28.7% to 37.4%
Range of rolling 5yr returns	-1.7% to 16.9%

Craigs Investment Partners research

Craigs Investment Partners ('Craigs') has one of the largest Private Wealth Research teams in New Zealand. They monitor major economic trends and keep a watch on social and political events which can affect both domestic and international financial markets. Craigs' analysts cover all the major sectors and publish timely, in-depth reports on investment strategy and specific companies.

Craigs believe that fact-based research plays a crucial role in any investment decision; therefore a disciplined and rigorous approach to research is taken in order to help build your investment strategy. The Private Wealth Research team is focussed on providing resources for investment advisers and for our clients.

As a Craigs Investment Partners client you get access to market strategy, company and fixed interest reports, market summaries and publications. These can be accessed on our website by logging into the client portal.

Company and fixed income reports

Our Private Wealth Research team monitors over 200 instruments, and compile reports readily available for your review. Within the client portal you can search for companies, sector reports, fixed income strategy or portfolio strategy reports.

Market Summaries

Market Summaries keep you informed of movements in world indices and world currencies. Within the client portal you can search for detailed information on securities across major share markets.

News & Views

News & Views is our signature publication produced regularly by our Private Wealth Research team, exclusively for Craigs Investment Partners clients. As a client you will receive this publication three times a year.

Research Wrap

Research Wrap is a monthly email newsletter. This includes a market update, a few key portfolio strategy notes and the Investment Committee monthly report to keep you abreast of the markets and economic events.

Asset Allocation Guide

The Asset Allocation Guide is updated regularly. The Guide takes you through the steps involved in establishing and managing your investment philosophy, our investment philosophy, research process and resources.

The Guide also outlines our recommended strategic asset allocation in more detail and outlines the risk and return characteristics of each. It is intended to assist clients as they consider what asset allocation best suits their circumstances and investment objectives.

Investor education

Investor Basics workshops

Learn about investing in one of our Investor Basics workshops. These are held over one or two sessions (lunchtime or evenings). Each workshop is approximately 1 1/2 hours. The free workshops are small, interactive and have been designed to promote discussion. For this reason, numbers have been limited to 10-12 attendees per workshop series.

Our workshops will cover:

- The fundamentals of investing – why, how and where to invest
- Key investment principles – what you need to consider when you invest
- How to build your own personal investment portfolio

We aim to provide you with enough information to help you establish your investment goals and develop a sound understanding of investing so you feel more confident when talking with your investment adviser about your personal investment plan and investment decisions. In each workshop you will be provided with handouts to take home and read in your own time.

You can enrol by talking to a Craigs investment adviser or by visiting the Craigs Investment Partners website **craigsip.com/investor-education**.

Online tutorials

Our website holds short educational videos focussed on the investment basics, from how to get started to the importance of diversification. If you have any questions on how to get started, talk to an investment adviser by phoning 0800 272 442.

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Risk Questionnaire

How to identify which asset allocation may suit your risk profile

Select the response that is most appropriate for you (one response per question).

1. Which statement best describes your knowledge about investing?	Circle one
No knowledge - I know virtually nothing about investing	1
Somewhat knowledgeable - I have a fair understanding about investing	3
Highly knowledgeable - I have a very good understanding about investing	6

2. Which statement best describes your investment experience?	Circle one
Virtually none - I am new to the area of investing	1
Moderate - I have some experience in investing in managed funds	3
Extensive - I have invested in a variety of vehicles including direct investments in stocks	6

3. In investment terms, you would describe your attitude to risk and return as:	Circle one
Very conservative - you are not much of a risk taker and accept this will result in lower long-term returns	1
Moderate - You are willing to take moderate risk to improve returns	5
Aggressive - You are willing to take a high level of risk to maximise returns	10

4. How many years until you plan to draw on your investment?	Circle one
Less than 5 years	0
5 to 10 years	5
More than 10 years	18

5. What is your primary goal in regards to this investment?	Circle one
To protect the value of my investment	1
To achieve moderate capital growth	5
To achieve high capital growth	10

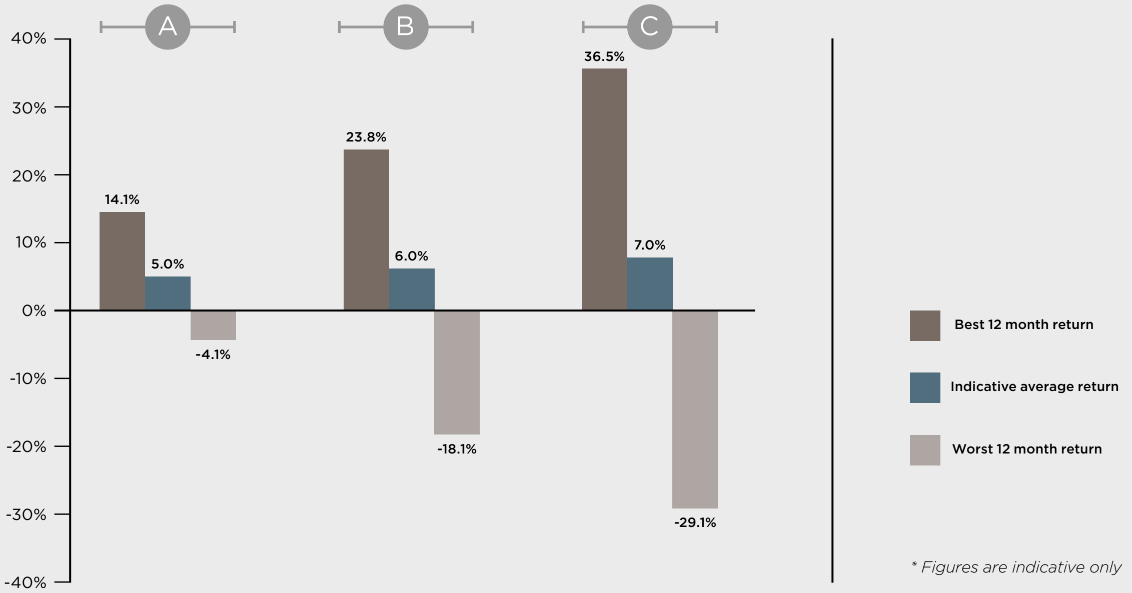
6. If your investment dropped in value by more than 10% over a short period, you would be:	Circle one
Very nervous	1
Somewhat concerned	5
Not worried - you are familiar with sharemarket fluctuations	10

7. If your investments were to drop in value by 10% in one year, your reaction would be to:	Circle one
Shift to a lower risk investment as soon as possible	1
Monitor your portfolio more closely and consider shifting to a lower risk investment in future	5
Accept that fluctuations are due to short-term market influences, you are in this for the long haul	10

8. How much reliance do you have on this portfolio to meet your retirement goals	Circle one
High	1
Moderate	5
Low	10

9. The chart below shows the best, worst and average returns for three different portfolios. You would be most likely to invest in:	Circle one
Investment A	1
Investment B	5
Investment C	10

Investment Returns - 3 Scenarios



Scoring the Questionnaire

Total Score

Add the points for each answer and use the score to identify which asset allocation may suit your risk profile. Discuss this with your investment adviser.

Score	8-35	36-64	65-90
Profile	Conservative	Balanced	High Growth

Please bear in mind that this is only a guide and is not a substitute for a detailed investment plan. This information is not personalised financial advice and does not take into account your particular situation. We recommend you seek advice before making any investment decision. Investments are subject to risks and returns are not guaranteed. If you have completed this guide, and would like to discuss your findings and investment opportunities, contact a Craigs Investment Partners adviser or call the Client Services team on 0800 878 278.