RAYMOND JAMES

The risk tolerance questionnaire

Helping institutional clients meet goals by knowing their limitations.

Institutions commonly define portfolio risk in terms of investment volatility. This risk is often quantified as "standard deviation," a statistical measure of the variability in a portfolio's returns. In broad terms, the higher the variability in returns, the riskier the portfolio.

However, standard deviation is only one example of portfolio risk. Others view risk as the possibility of not meeting the institution's growth objectives and/or spending requirements over a defined time horizon. In order to gain a full understanding of risk, you must consider a fund's time horizon, liquidity needs, inflation, and other investment constraints.

One of the most effective ways to assess an institution's risk profile is to complete a risk tolerance questionnaire. This document provides a framework for asking the right questions to help institutions and investment consultants construct a portfolio that has a high probability of meeting the institution's objectives while maintaining an appropriate level of risk. But first, it's important to understand portfolio volatility and how it is influenced by the asset allocation decision.

PORTFOLIO VOLATILITY

A portfolio's risk and return characteristics are primarily determined by its overall allocation to major asset classes such as stocks, bonds, and cash. Studies have found that asset allocation may account for more than 90% of the variability of a portfolio's return over time.

More specifically, fixed income (bonds), cash, and cash equivalents tend to minimize swings in portfolio value and preserve capital over shorter time periods. These investments are typically used to meet near-term cash flow needs. Conversely, equities (stocks) and growth-oriented investments tend to be more volatile than fixed income but generate high rates of return over time. These investments are typically used to increase a portfolio's value over time and outpace inflation, which can erode a portfolio's ability to meet its spending requirements.

Portfolios that are more heavily weighted toward equities and growth-oriented investments tend to earn higher rates of return over time but can also experience more dramatic temporary drawdowns. Conversely, portfolios heavy in fixed income and cash tend to experience smaller swings in performance but earn more modest rates of return over time.

BALANCE THROUGH DIVERSIFICATION

Individual investments have unique risk and return characteristics, causing them to behave in a variety of ways in different market environments. For example, during periods of economic growth, holding a larger percentage of equities in a portfolio serves as a strong tailwind, since equities tend to earn higher returns than fixed income and cash over time. However, in periods of economic uncertainty, equities also tend to experience greater declines in value. In volatile market environments, fixed income and cash may earn higher rates of return.

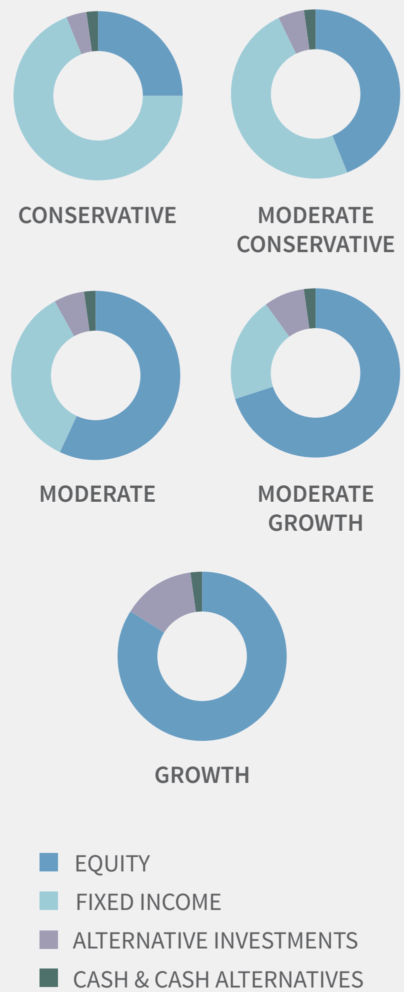
It's difficult – if not impossible – to predict exactly when these changes will occur. Therefore, most successful investors use diversification in an attempt to maximize their return potential over time while mitigating risk. This involves striking the right balance among asset classes in an institution's portfolio.

WHAT IS A RISK PROFILE?

A risk profile assesses an institution's ability and willingness to withstand portfolio risk. The risk profile is one of the most important components in determining an institution's asset allocation. In addition, institutions and investment consultants maintain a risk profile to mitigate potential disruptions to an institution's ability to meet its long-term financial goals.

A risk tolerance questionnaire is an effective way to measure an institution's willingness and capacity for risk. It is a critical component of the institution's ongoing investment program.

The ratio of asset types in a portfolio can be adjusted to focus on long-term growth or stability, and be adjusted to meet market conditions.



These are representative portfolios.

INSTITUTIONAL RISK TOLERANCE QUESTIONNAIRE

WHAT ARE THE INSTITUTION'S TOTAL ASSETS?

$50,000,000+

$10,000,000 – $49,999,999

$5,000,000 – $9,999,999

$1,000,000 – $4,999,999

Below $1,000,000

ASSETS UNDER CONSIDERATION FOR INVESTMENT: ____________________

WHAT IS THE INSTITUTION'S TIME HORIZON?

0-4 Years **(3 points)** 5-10 Years **(6 points)** 11-20 Years **(9 points)** 20 Years + **(12 points)**

WHAT IS THE INSTITUTION'S PRIMARY INVESTMENT OBJECTIVE?

Income **(3 points)** Growth & Income **(6 points)** Growth **(9 points)**

Other (Please specify): ______________________________

WHAT IS THE INSTITUTION'S ANNUAL SPENDING POLICY?

Low (0-2%) **(3 points)** Moderate (2-5%) **(6 points)** High (5-7%) **(9 points)**

Other (Please specify): ______________________________

WHAT IS THE INSTITUTION'S AVERAGE ANNUAL RETURN EXPECTATION?

0-3% **(3 points)** 3-5% **(6 points)** 5-7% **(9 points)** More than 7% **(12 points)**

WHAT IS THE INSTITUTION'S OVERALL INVESTMENT APPROACH?

Prefers a relative level of stability in the overall portfolio **(3 points)**

Prefers to slightly increase investment value while minimizing the potential for loss of principal **(6 points)**

Prefers moderate investment growth with moderate to high levels of risk and principal fluctuations **(9 points)**

Prefers meaningful investment growth with moderate to high levels of risk and principal fluctuations **(12 points)**

Prefers maximum long-term returns with maximum risk and principal fluctuations **(15 points)**

HOW WOULD THE INSTITUTION REACT TO AN ASSET IN A LONG-TERM PORTFOLIO LOSING 20% OF ITS VALUE IN ITS FIRST YEAR?

Would be extremely concerned and liquidate the investment **(3 points)**

Would be concerned and consider liquidating the investment **(6 points)**

Would be concerned but not consider liquidating the investment **(9 points)**

Would not be overly concerned given the institution's long-term investment philosophy **(12 points)**

WHICH OF THE FOLLOWING EVENTS DOES THE INSTITUTION FEAR THE MOST?

A loss of 10% of the fund's principal over a period of six months or less **(3 points)**

A loss of 10% principal over a one-year period **(6 points)**

Investment performance that consistently underperforms broad market benchmarks **(9 points)**

A missed investment opportunity that may have yielded moderately higher returns over the long term despite higher risk **(12 points)**

A missed investment opportunity that may have yielded higher returns over the long term despite substantially higher risk **(15 points)**

WHAT IS THE GOVERNING BOARD'S OVERALL KNOWLEDGE OF INVESTMENTS?

None **(3 points)**

Low (Very little investment experience) **(6 points)**

Moderate (Some investment experience) **(9 points)**

High (Extensive investment experience) **(12 points)**

PLEASE LIST ANY ADDITIONAL INVESTMENT CONSTRAINTS BELOW:

RISK TOLERANCE QUESTIONNAIRE RESULTS (MIN POINTS = 24, MAX POINTS = 96)

CONSERVATIVE (24-37 POINTS)

Current income/moderate levels of volatility
Portfolios with a conservative objective are designed to provide some appreciation potential and current income with minimal volatility. Invested primarily in bonds with a moderate amount of stocks, this type of asset allocation may be appropriate for investors who are somewhat sensitive to market fluctuations.

MODERATE CONSERVATIVE (38-51 POINTS)

Current income/moderate levels of volatility
Portfolios with a moderate conservative objective are designed to provide moderate growth potential. With a target of nearly equal parts stocks and bonds, this objective seeks to strike a balance between growth and income. This type of asset allocation may be appropriate for investors who are somewhat sensitive to market fluctuations.

MODERATE (52-65 POINTS)

Capital appreciation and current income/moderate levels of volatility
Portfolios with a moderate objective are designed to increase in value over time and provide strong growth potential. Invested with a greater exposure to equities for their higher total return potential, this objective includes a meaningful allotment of bonds to help limit volatility and mitigate risk, as well as provide income. This type of asset allocation may be appropriate for investors who can accommodate a moderate level of risk.

MODERATE GROWTH (66-79 POINTS)

Capital appreciation/elevated levels of volatility
Portfolios with a moderate growth objective are designed to create greater potential for capital appreciation. Invested significantly in stocks for their higher total return potential, this objective also includes a moderate amount of bonds to help provide income, lower volatility and mitigate risk. This type of asset allocation may be appropriate for investors who can accommodate a moderate level of risk.

GROWTH (80-PLUS POINTS)

Long-term capital appreciation/elevated levels of volatility
Portfolios with a growth objective are designed to increase in value over time and provide strong growth potential. Invested almost entirely in stocks for their higher return potential, this type of asset allocation may be appropriate for investors who can accommodate a moderate to high level of risk.

All investing involves risk, and you may incur a profit or a loss. Past performance does not guarantee future returns. There is no assurance that any investment strategy will be successful. The foregoing content reflects the opinions of Raymond James Institutional Fiduciary Solutions and is subject to change at any time without notice. Content provided herein is for informational purposes only and should not be used or construed as investment advice. There is no guarantee that these statements or opinions herein will prove to be correct.

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