# Explanation of Risk Ratings

There are two separate indicators of risk which Friends First applies to investment funds. These are the European Securities and Markets Authority (ESMA) Risk Rating and the Packaged Retail and Insurance-based Investment Products (PRIIPs) Summary Risk Indicator (SRI).

All of the Friends First investment funds are risk rated using the ESMA scale across our supporting material. However, the SRI for each fund is included as a mandatory part of the Key Information Document which forms part of PRIIPs regulatory disclosure documentation.

While both risk rating approaches use scales of 1 – 7 (1 being the lowest and 7 the highest risk) and are based on the volatility of return there are a few key differences between the two approaches. This may mean that a fund has different ESMA and SRI risk ratings.

The main differences are outlined below.

| | ESMA Risk Rating | PRIIPs SRI Risk Rating |
|---|---|---|
| Different Risks | Covers market risk[1] only | Covers market and credit risk[2] |
| Different Volatility Bands | Less than 0.5% annualised volatility for the lowest risk bucket and greater than 25% annualised volatility for the highest risk bucket. | Less than 0.5% annualised volatility for the lowest risk bucket and greater than 80% annualised volatility for the highest risk bucket. |
| Different risk calculations | Based on the annualised volatility of the weekly returns of the fund with an observation period of the previous 5 years. | Based on the aggregation of 2 separately calculated risk indicators i.e. the market risk measure and the credit risk measure. |

[1] Market Risk is the risk of losses in positions arising from movements in market prices and is often measured by examining the volatility of a fund and may in some cases capture elements of credit risk, securities lending risk and liquidity risk.

[2] Credit Risk is the risk of default on a debt that may arise from a borrower failing to make required payments and in this case aims to capture the probability of default of entities related to the investment and its impact on the value of investor's return.

**For more information**
**please speak to your Financial Broker.**

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