

Make More of Your Money

There are times in our lives when it's important to look ahead. At such times an understanding of investments and their associated risks and potential rewards is useful as it can help you plan for the different financial requirements and situations you will encounter during your life.

This document aims to:

- Help you to think about your financial position and objectives so you can make an informed decision about whether investing is for you
- Help you to determine what level of risk you are prepared to take with your money
- Explain how you can manage risk by using investment funds to meet your needs
- Outline the types of savings and investments available including fund management companies and funds

When thinking about what to do with your money, it is important to consider your finances and your personal circumstances as a whole.

Debt

It seems strange to talk about debt when you might want to invest money. However, it is often a good idea to pay off debts on which you are paying a lot of interest, such as credit cards, before considering putting money away. This is because the interest you pay on those debts may be higher than the interest you could earn on new savings.

Money for an emergency fund

It is important to have access to enough money in the event of an unplanned financial emergency. One way of doing this is by having money in an easily accessible bank or building society account. That way, if an emergency arises you can quickly get your hands on some money. We recommend a minimum of 3 months income to be set aside for this purpose.

Savings and investments

When deciding whether to invest, there are three key questions to ask yourself:

“What risks am I prepared to take in order to make my money grow?”

“What return am I expecting on my investment?”

“When will I want to access to my money?”

Your answers will help you choose the most suitable type of investment for you.

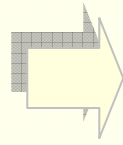
There are many different investment categories, or 'assets', in which you can invest in for the future, for example:

- **Cash and National Savings** - including premium bonds
- **Stocks and shares** - also known as equities
- **Government and corporate bonds** - where you lend to the government or a company for a fixed interest return
- **Property, second homes, buy to let or commercial property** - like offices or retail parks

Each of these 'asset classes' has its own level of risk and expected rate of return. It is possible to combine a variety of asset classes in a pooled investment fund or focus on one to meet your needs. We'll explain in a moment how that's done, but let's look first at what we mean by risk.

Your attitude to risk

Let's assume you have dealt with the debt and emergency fund cash, what sort of investment is right for you?
If you are going to invest in an asset backed investment in the hope of greater reward than a deposit account, a key question to ask yourself is:

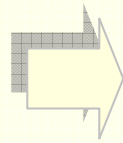


"How comfortable would I be facing a short term loss in order to have the opportunity to make long term gains?"

If you are not prepared to take any risk whatsoever, then investing in an asset backed investment may not be for you.

How much risk do you feel comfortable with?

The length of time you invest for is also crucial. A question you therefore need to ask yourself is:



"How long have I got before I need to spend the money?"

Generally, the longer it is before you need your money, the greater the amount of risk you may be able to take in the expectation of greater reward.

In order to help you determine your personal attitude to risk we ask a number of questions. From your answers, we can tell you how adventurous or cautious you want to be with your money. In other words, we describe the kind of investor we think you are, and we check with you to make sure you agree.

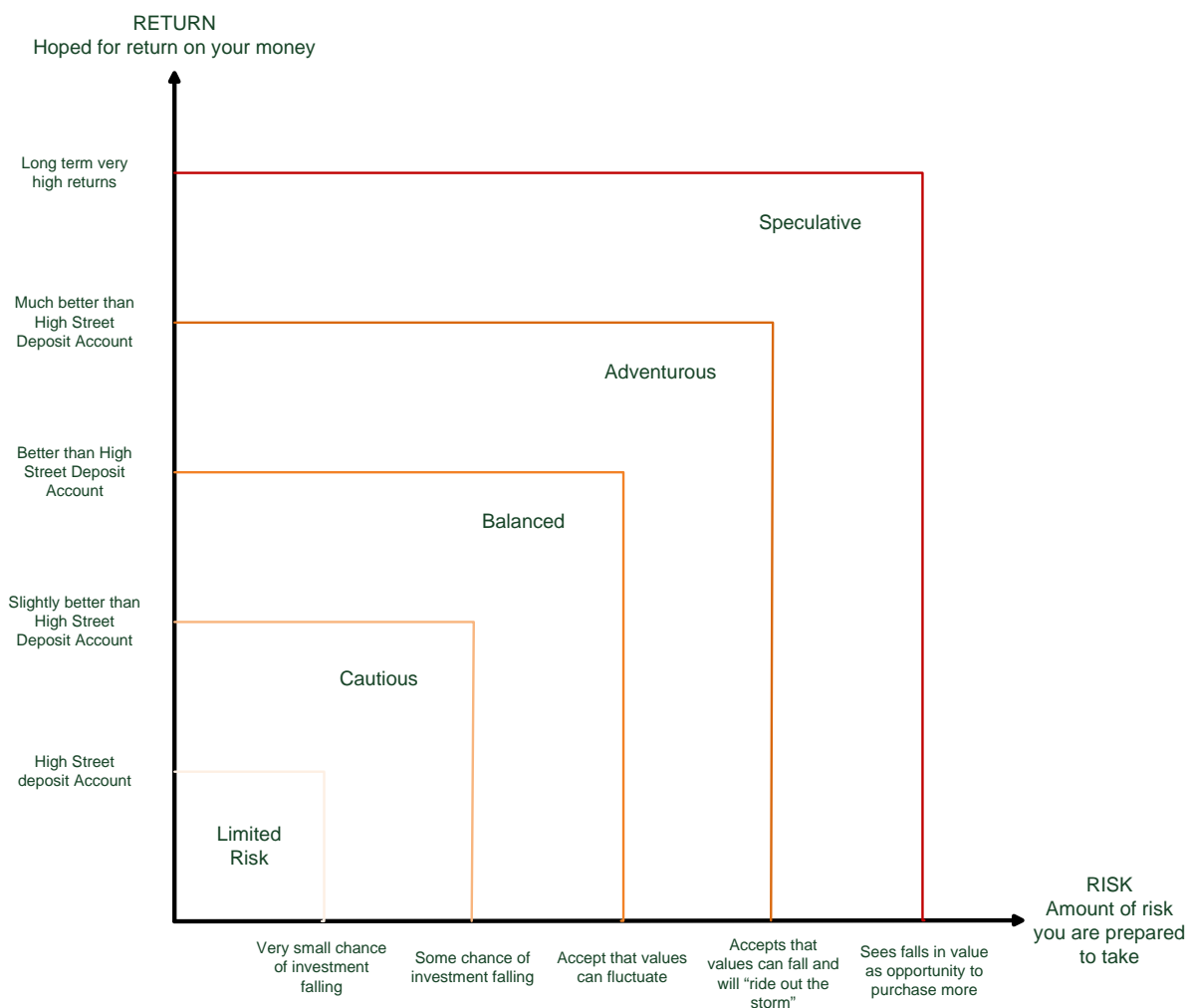
Limited Risk	Cautious	Balanced	Adventurous	Speculative
A Limited Risk Investor looks for an investment where the probability of any fall and the size of any fall in the value of their capital are low or non-existent. The return, therefore, is likely to be similar to that available from a high street deposit account and as a result, the Limited Risk Investor runs the risk that inflation may reduce its real value over the long term.	A Cautious Investor looks for an investment where the potential return is slightly better than that available from a high street deposit account. They accept that the value of the investment could fall as well as rise. However, they would feel uncomfortable if their investments were to rise and fall in value rapidly.	A Balanced Investor looks for higher returns than those available from a deposit account and is willing to accept a certain amount of fluctuation in the value of their investments. However, they would feel uncomfortable if their investments were to fall significantly in value.	An Adventurous Investor is willing to accept a higher level of risk on their investment in return for higher returns in the long run. They accept an amount of fluctuation in the value of their investments as a result. They would feel comfortable if their investments fell in value in one year and would see this as a time to ride out the storm rather than a time to invest more.	A Speculative Investor is willing to accept a much higher level of risk on their investment in return for higher returns in the long run. They accept an amount of short-term fluctuation in the value of their investments as a result. They would feel comfortable if their investments were to fall in value in one year and may well see this as an ideal time to invest more because of their cheaper purchase price.

Your attitude to risk - summary

Investing is about balancing the risk you are comfortable with, this typically falls into two categories; the risk of your investment falling in value and the risk of your investment growing too slowly to meet your objectives. Achieving the right balance between these two factors should determine which investment is best for you and how you structure your overall portfolio.

Your investment objectives and attitude to investment risk are personal to you and may change from time to time. Our risk/reward information can help illustrate this concept. It is not exhaustive but covers a wide range of funds and investments and shows the general principle that, as the level of risk increases so the potential for higher returns increases.

Please note the diagram below is only intended to be a general indicator of relative risk and may vary in certain circumstances.



Typically over a ten year period asset backed investments tend to outperform cash deposits, which are more susceptible to erosion due to inflation. However, there are no guarantees and the value of your investment can fall.

The money deposited in a building society account is secure. The value of any investment is not guaranteed and you may not get back the money you invested.

What investment fund will suit me?

An investment fund pools money from its many investors and invests it on their behalf in a range of assets such as shares, commercial property, fixed interest bonds and cash or in a single asset class. Investors buy 'units' or 'shares' in the fund, which will vary in price daily, depending on the performance of those underlying assets.

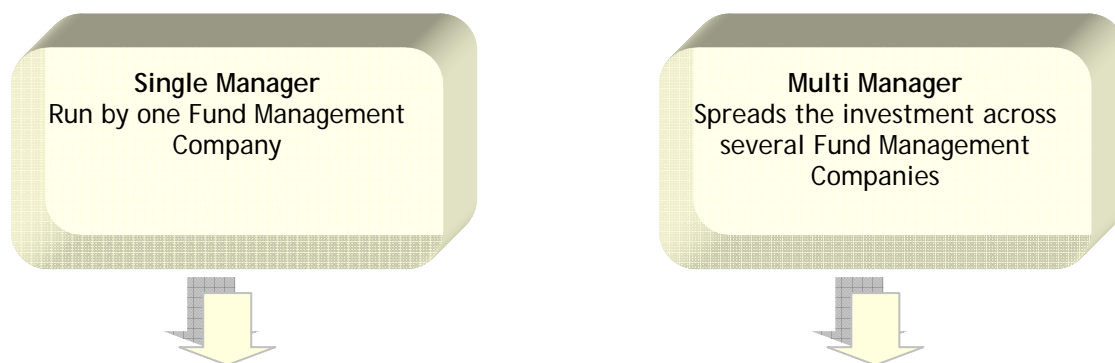
A spread of assets, known as 'diversification', helps reduce the loss should one of the underlying assets in the fund suffer a downturn.

Managing this mix is a skill. It requires a high level of numeracy, a good understanding of why and how the value of investments can change, the presence of mind not to be swayed by every bit of news you hear and the ability to be objective. It also takes time. This is what your Fund Manager will do.

Managed Funds

These are funds which diversify between different types of investment, meaning they invest in a mixture of cash, bonds, shares, pooled funds, property and derivatives.

There are two basic types of Managed Fund



A **Single Fund Management** company will invest in a variety of different assets. They are likely to have a number of individuals managing different aspects of the fund. They are responsible for managing the fund and taking all investment decisions about buying and selling assets within the fund. They are also responsible for setting the charges.

The **multi-manager** splits the portfolio between several single Fund Managers, choosing different Investment Managers to run different parts of the portfolio. This enables the funds to combine differing skills across the market, from the style of the manager to managing different investment types.

Both of these types of funds make a charge for managing the assets within it. Due to the additional layer of fund management, multi-manager funds are typically more expensive than a single manager fund. The multi-manager will attempt to recover these costs through a better performance. When we have chosen the most appropriate fund, we will make sure that you understand the charges and how they will be applied.

Other types of Managed Fund you can invest in:

In addition to Managed Funds, there are thousands of different investment funds to choose from. But to help you identify funds with similar characteristics, they are categorised within a fund classification system of over thirty sectors. Each sector is made up of funds investing in similar assets, or the same stockmarket sectors, or in the same geographical region. Funds are classified in this way to make it easier for you to find those that meet your investment objectives. This ensures that when comparing one fund with another, you are comparing funds with similar objectives or with similar underlying assets.

Lifestyle

A fund that changes its underlying investments over time.

These funds are designed to offer a changing asset mix over time, tailored to your changing objectives. In the early years they will invest in assets that match your risk profile. As you come closer to needing access to your savings, often in the last seven years, your investment will automatically move into safer assets, such as cash or government bonds, to preserve the fund that you have built up. This approach assumes that you will become more cautious as the investment nears maturity.

Protected

A fund that will protect some of your capital.

A protected fund seeks to protect most of your investment from a fall in the stock market by continuous unit price protection. This means that part of the fund is in equities and part in cash. In turbulent times the Fund Manager will move more into cash, reducing the exposure to equities. Over time a pure equity fund is likely to offer greater potential for returns, but with it less stability. For that reason protected funds often appeal to the more cautious investor and to a more adventurous investor looking to balance their investment portfolio.

Distribution

A fund that will pay out only the income it receives from its underlying assets.

You may need income but are concerned about having to take capital from the fund to receive it. Taking just the arising income does not deplete the capital, although value of the capital will go up and down with the performance of the underlying assets. The amount of income will also vary for the same reason.

Smoothed

A fund that takes the bumps out of the journey.

You may want better returns than cash deposits, but you dislike the value of your investment going up and down by large amounts on a daily basis. A "with profits" product/fund seeks to provide a steady return by smoothing out the ups and downs of the stock market.

Here the Fund Manager keeps back some money when the value of the underlying assets rises more quickly than expected. The surplus is then used to top up their value when they fall or rise less quickly than expected. It means that the change in value of your fund won't be as dramatic as that of the underlying investments, which may suit the more cautious investor. Remember that smoothing cannot cancel out the impact of a sustained fall in investment returns.

Sector Funds

UK Gilts	Funds which invest at least 95% of their assets in Sterling denominated (or hedged back to Sterling) triple AAA rated, government backed securities, with at least 80% invested in UK government securities (Gilts).
UK Index Linked Gilts	Funds which invest at least 95% of their assets in Sterling denominated (or hedged back to Sterling) triple AAA rated government backed index linked securities, with at least 80% invested in UK Index Linked Gilts.
Sterling Corporate Bond	Funds which invest at least 80% of their assets in Sterling denominated (or hedged back to Sterling), Triple BBB minus or above corporate bond securities (as measured by Standard & Poors or an equivalent external rating agency). This excludes convertibles, preference shares and permanent interest bearing shares (PIBs).
Sterling Strategic Bond	Funds which invest at least 80% of their assets in Sterling denominated (or hedged back to Sterling) fixed interest securities. This includes convertibles, preference shares and permanent interest bearing shares (PIBs). At any point in time the asset allocation of these funds could theoretically place the fund in one of the other Fixed Interest sectors. The funds will remain in this sector on these occasions since it is the Manager's stated intention to retain the right to invest across the Sterling fixed interest credit risk spectrum.
Sterling High Yied	Funds which invest at least 80% of their assets in Sterling denominated (or hedged back to Sterling) fixed interest securities and at least 50% of their assets in below BBB minus fixed interest securities (as measured by Standard and Poors or an equivalent external rating agency), including convertibles, preference shares and permanent interest bearing shares (PIBs).
Global Bonds	Funds which invest at least 80% of their assets in fixed interest securities. All funds which contain more than 80% fixed interest investments are to be classified under this heading regardless of the fact that they may have more than 80% in a particular geographic sector, unless that geographic area is the UK, when the fund should be classified under the relevant UK (Sterling) heading.
UK Equity & Bond Income	Funds which invest at least 80% of their assets in the UK, between 20% and 80% in UK fixed interest securities and between 20% and 80% in UK equities. These funds aim to have a yield in excess of 120% of the FTSE All Share Index.
UK Equity Income	Funds which invest at least 80% in UK equities and which aim to achieve a historic yield on the distributable income in excess of 110% of the FTSE All Share yield at the fund's year end.
UK Equity Income & Growth	Funds which invest at least 80% of their assets in UK equities, aim to have a historic yield on the distributable income in excess of 90% of the yield of the FTSE All Share Index at the fund's year end and which aim to produce a combination of both income and growth.
UK Zeros	Funds investing at least 80% of their assets in Sterling denominated (or hedged back to Sterling), and at least 80% of their assets in zero dividend preference shares or equivalent instruments (i.e. not income producing). This excludes preference shares which produce an income.
UK All Companies	Funds which invest at least 80% of their assets in UK equities which have a primary objective of achieving capital growth.
UK Smaller Companies	Funds which invest at least 80% of their assets in UK equities of companies which form the bottom 10% by market capitalisation.
Japan	Funds which invest at least 80% of their assets in Japanese equities.
Japanese Smaller Companies	Funds which invest at least 80% of their assets in Japanese equities of companies which form the bottom 30% by market capitalisation.
Asia Pacific including Japan	Funds which invest at least 80% of their assets in Asia Pacific equities including a Japanese content. The Japanese content must make up less than 80% of assets.

Sector Funds (continued)

Asia Pacific excluding Japan	Funds which invest at least 80% of their assets in Asia Pacific equities and exclude Japanese securities.
North America	Funds which invest at least 80% of their assets in North American equities.
North American Smaller Companies	Funds which invest a least 80% of their assets in North American equities of companies which form the bottom 20% by market capitalisation.
Europe including UK	Funds which invest at least 80% of their assets in European equities. They may include UK equities, but these must not exceed 80% of the fund's assets.
Europe excluding UK	Funds which invest at least 80% of their assets in European equities and exclude UK securities.
European Smaller Companies	Funds which invest at least 80% of their assets in European equities of companies which form the bottom 20% by market capitalisation in the European market. They may include UK equities, but these must not exceed 80% of the fund's assets. ('Europe' includes all countries in the MSCI/FTSE pan European indices.)
Global Growth	Funds which invest at least 80% of their assets in equities (but not more than 80% in UK assets) and which have the prime objective of achieving growth of capital.
Global Emerging Markets	Funds which invest 80% or more of their assets directly or indirectly in emerging markets as defined by the World Bank, without geographical restriction. Indirect investment eg. China shares listed in Hong Kong, should not exceed 50% of the portfolio.
Specialist	Funds that have an investment universe that is not accommodated by the mainstream sectors. Performance ranking of funds within the sector as a whole is inappropriate, given the diverse nature of its constituents.
Absolute Return sector	Funds managed with the aim of delivering absolute (i.e. more than zero) returns in any market conditions.
Technology & Telecommunications	Funds which invest at least 80% of their assets in technology and telecommunications sectors as defined by major index providers.
Money Market	Money market funds are suitable for shorter term investments to achieve an overall balance of risk and potential return. These funds invest in cash deposits, and other money market trading opportunities. In the longer term, returns are likely to be lower than those from equity funds. They are not guaranteed and unlike a bank deposit account, may fall below the initial amount invested.

Before investing for the future, make sure you have sorted out your current debts and made provision for any sudden downturns in your fortunes. Then decide why you are investing, for how long and how much risk you can put up with. Investing in pooled investment funds has proved to be a way of achieving better returns than you can get from a deposit account on the High Street, providing you are prepared to accept the risk.

You should not use past performance as a suggestion of future performance. It should not be the main or sole reason for making an investment decision. The value of investments and any income from them can fall as well as rise. You may not get back the amount you invested. If at any time you are unsure about which funds are suitable for you, you should speak to your adviser.

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