# Introduction to investing

Start

# It’s your future, so why not invest in it?

Once you are a member of your company plan you may be able to use your plan Fund Centre to see where your money is invested. But before you begin, it’s important to understand a little more about the types of investment you can make.

This guide tells you about the types of investment choices available to you. We’ll tell you what they are and how they work. Read on, and find out how you can start shaping your financial future.

This guide provides general information only. If you are not sure which investments are suitable for you, or if you are not confident in making a decision, then you should contact a financial adviser. You will have to pay for any advice you receive.

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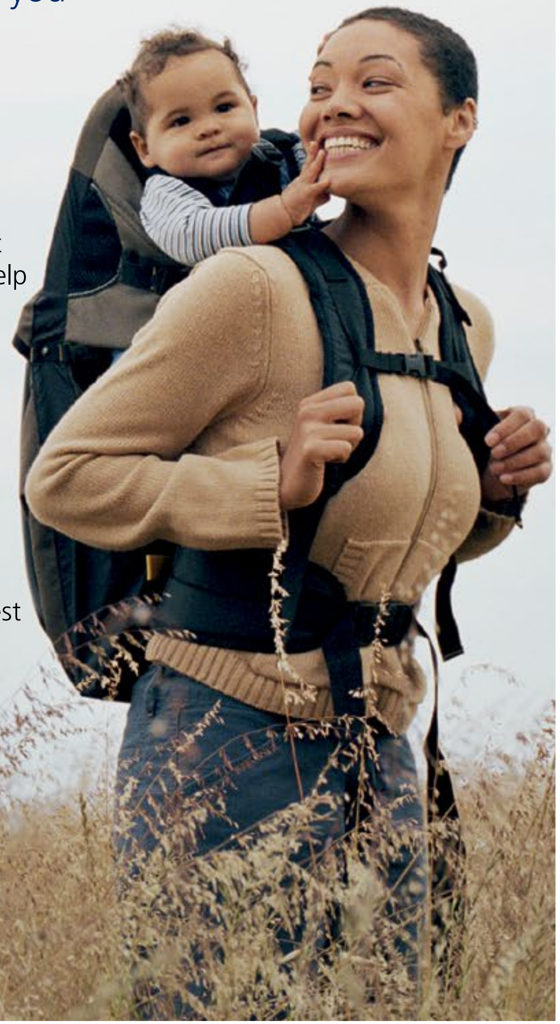
# What are your savings goals?

## It's a simple question, but are you saving for the near future or making an investment for the longer term – perhaps for retirement?



Deciding what you want your investment to achieve is important, because it will help you make decisions about where to put your money. When you want to invest, what and how you do it will be based on three things:

- What do you want your money to achieve?
- What levels of investment risk would you be comfortable with?
- How long would you be happy to invest your money?

# How do you feel about investment risk?

It's important to decide how you feel about risk before you make an investment. Hopefully your money will go up in value and, when you want access to it, it will be worth more than when you originally invested.

**But the value could also go down and you may get back less than you pay in. There's also the risk that your money may be eroded by inflation.**

The tendency of a particular investment to rise and fall in value is reflected in its 'volatility'. A more volatile investment will tend to see frequent and/or sharp rises and falls while a less volatile fund is likely to both rise and fall more slowly.

Higher risk investments are likely to fluctuate more in value over time – they may swing from being higher in value, to lower in value, more often.

Choosing a low risk investment means that your money is likely to fluctuate by smaller degrees but you are less likely to see higher growth. Such an investment will normally change less in value over a period of time. In real terms, it will be worth less if inflation is higher than the return you receive.

The general rule is that the greater the potential for growth, the more risks you may need to take.

You have to accept some level of risk when you make an investment but how much depends on what you want to achieve and how quickly you hope your money will grow.

Are the types of investments you hold aligned to your attitude to risk? Ask yourself what would happen if you lost all or some of your investments and the impact this would have on your lifestyle in the future. How willing are you to risk the money you have invested for the chance of receiving higher returns in the future?

Only you know what your goals are and how much risk you're prepared to accept to reach them.

# What options are available?

## When you've decided what level of investment risk you are willing to take and how long you are likely to remain in the plan, you can think about which type of investment suits you.

Generally, your money will be invested in an 'investment fund' which means it is pooled with other investors money. Your employer will select a range of funds from which you can choose, using what is known as the 'self-select' option.

### What is an investment fund?

An investment fund is designed to hold individual assets. The fund manager (operating within guidelines) decides which types of asset will be bought and sold by the fund, so it's important to understand more about them. There are four main types of asset classes and these are described on the following pages.

### Fund managers

When you put your money into a fund, it will be invested by a fund manager in the hope that it will grow over a period of time.

Fund managers are financial professionals whose job it is to follow a set of guidelines – an investment strategy – and look for growth opportunities on your behalf. Fund managers have extensive knowledge of the companies, markets and territories in which the fund can invest. They use this expertise to decide on where to invest, and when and how to adjust the relative proportions of different asset types. The fund manager keeps these decisions under constant review, through continuing analysis, research and regular meetings with the companies in which the fund is making or considering investment.

You also need to decide which type of fund management expertise you would like: active or passive.

### Active management funds

Active funds buy and sell assets with the intention of maximising gains and minimising losses on your behalf. This means that fund managers react to market situations and take advantage of insights and opportunities as they arise. In recognition of the expertise needed to run funds this way, the charges are usually higher than passive funds.

### Passive management funds

In contrast to active funds, a passive fund follows a stricter set of guidelines rather than trying to anticipate growth opportunities. Usually, a passive fund will aim to mirror the performance of a particular stock market index. The advantage of passively managed funds is their charges are likely to be lower than actively managed funds as there are fewer active analysts and managers involved.

Whether the fund is active or passive, there is no guarantee that the fund manager will achieve the objectives described.

**There are several advantages to investing in funds:**

- **An expert** (the fund manager) picks investments for you.
- **You spread the amount** of risk you're taking with your money because it is invested, for example, in different company shares.
- **It could cost less** than buying investments individually.
- **There's less administration** as the fund manager does it all for you.
- **You have more choice** and as part of a group of investors, you'll get access to a wider range of investment opportunities.

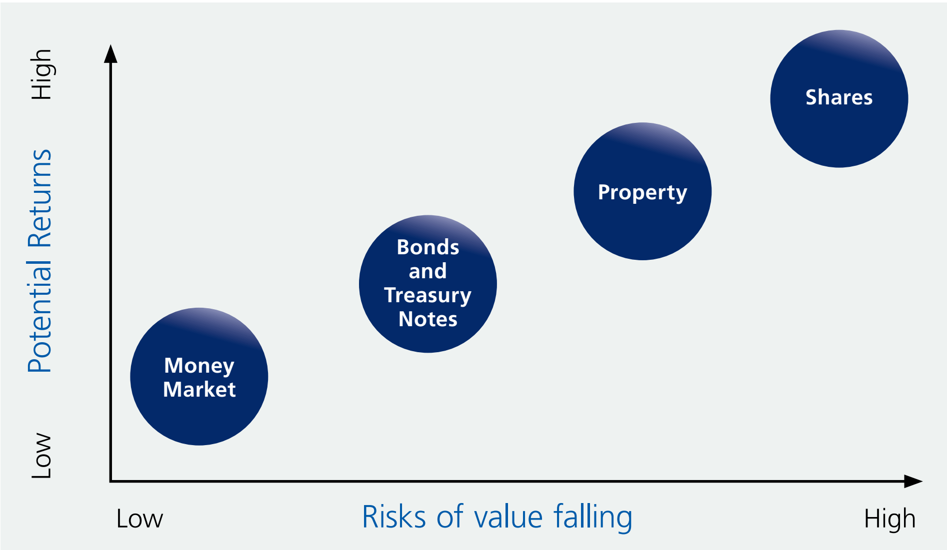
Understanding a little more about what's in each fund can help you make choices that suit your aims, and your attitude to risk.

# What is an asset?

There are four main types of investment, which are often called 'asset classes'. Each one works in a different way and carries its own particular investment risks. You need to understand how each one works and the risks involved before making any investment decisions.

- **Money market investments:** money on deposit (e.g. cash in a bank or building society) and short term loans to raise cash.
- **Bonds and Treasury Notes:** loans to companies or 'Government's.
- **Property:** physical buildings, usually commercial properties.
- **Shares:** stakes in a company (also called equities).

Fund managers buy and sell these assets on your behalf, hoping that their value will increase over a period of time. The diagram below shows how different assets have higher or lower risks attached to them, and could potentially give you higher or lower returns on your initial investment. While the diagram shows the general long term relative performance of the asset classes, it's important to note that the way an asset class has performed in the past isn't necessarily how it will perform in the future.




- **Money market investments.** Money market funds invest in cash deposits, for example in a bank or building society account, or short-term (normally less than one year) near cash assets, for example cash loans in return for interest payments and repayment of the loan at a named date. In some circumstances, when interest rates are low, the returns on money market funds may be less than the charges.

  Some money market funds invest in a broader range of money market instruments. These instruments are loans that produce an income in the form of interest payments. The investment aim is to seek higher returns than other near cash investments.

  Examples include:

  – Commercial paper – this is an unsecured short-term debt (normally less than one year) issued by companies or banks as a way of raising cash.

  – Floating rate notes – these are short-term (five years or less) bonds that pay a variable rate of interest until maturity. Adjustments to the interest rate are typically made every six months and track a specific market rate. Their value falls when interest rates rise or the strength of the borrower falls. Alternatively, their value rises when interest rates fall or the borrower's financial strength increases.

  The value of these investments depends on market interest rates and the strength of the institution with the loan. This means an increased risk of a fall in value, compared with other near cash assets, as described above.

  Investing solely in money market funds for the medium to longer term (over five years) may result in a lower return than a bank or building society account, or equity funds and less than inflation.

- **Bonds.** Many companies and Governments use money from investors to raise funds. In turn they issue securities known as 'bonds'. In return for the loan, interest is paid until an agreed end date. These securities can be bought or sold before the agreed end date.

Often referred to as fixed-interest investments, funds holding these types of assets tend to produce lower but more stable returns than equities. There is a risk that these investments could go down in value if, for example, the government or company failed to repay some or all of the debt.

Investing solely in these funds for the longer term may result in a lower return than shares.

The rate of income on fixed-interest securities won't increase in line with inflation unless they are index-linked. Index-linked means the payment of income is adjusted in line with movements in the relevant inflation index. This means that if the rate of inflation is higher than the rate of income, the real value of the income produced will fall.

- **Property.** Investing in commercial property is an alternative to the traditional asset classes of equity and fixed-interest. As well as looking for capital growth on the properties, rental income aims to be received. Values are determined by an independent valuer considering market conditions and, in particular, the price received for recent sales.

  At times the value of your investments in these funds could fall quite sharply. In more uncertain market conditions we may need to delay your transaction in these funds by up to a year, or possibly longer. We will do this if the fund manager believes it is necessary to sell properties before carrying out your transaction.

- **Shares (equities).** If you invest in a fund that deals in the shares of companies, then growth is dependent on several factors including how well those companies perform. When a company makes higher profits, it could choose to pay higher 'dividends'. Dividends are payments made by a company to its shareholders and are a portion of corporate profits. The fund you're investing in benefits from those dividends as returns in your fund.

  Increased profits and dividend payments may also mean the value of each share increases, providing further growth in the value of the fund.

  Over time a fund which invests mostly in shares is likely to offer greater potential for higher returns, but with it greater changes in value. This is because they are volatile in nature: meaning their value can rise and fall quickly. While they carry the greatest risk, they may provide the greatest return over the long term (10 years or more).

  If you choose to invest in funds with global assets, changes in exchange rates between currencies may also cause the value of your investments to fall or rise.

## Funds investing in mixed assets

Some funds may invest in a mix of assets (for example, shares and bonds). These include managed or balanced funds.

- **Managed or balanced funds.** A managed or balanced fund allows you to invest in a range of assets, countries and market sectors, spreading your investment across often hundreds of different companies. The fund manager is able to adjust the asset allocation of the fund in anticipation of changing market conditions.

  Funds which specialise or concentrate their investment in specific regions, sectors (such as smaller companies or emerging markets) or in a smaller number of shares can result in greater fluctuations in value. Funds that invest in a wide range of sectors or shares generally carry less risk.

## Other investments

- **Socially Responsible Investments** only invest in companies meeting certain ethical criteria – they're often known as ethical investments. Just because a fund has ethical criteria, doesn't mean it will offer lower performance or less risks.
- **Shariah Law** – compliant investments are those that abide by the laws of Islam, avoiding investments in industries that are considered to be against the morals of the Islamic faith. For example, Islam doesn't allow any form of investment in conventional banking.

With these choices, whichever fund you choose, you need to be comfortable with the assets it invests in and the fund's overall strategy. Like other investments, the value can fall and you may get back less than you pay in.

# What other choices do you have?

## Your company may offer a default investment option and Lifestyle strategies described below.

### Default investment option

Your employer may have decided that your payments are automatically invested in a default investment option. This is a specific fund or funds designed to meet the needs of a ‘typical’ member. It could be a lifestyle strategy. You can find out whether your employer has chosen this option, by reviewing your employee guide.

Once you are a member of the plan, you can choose to remain in the default investment option or select different funds depending on how much risk you want to take with your money. Although the default investment option may be a good way to invest for many people, it may not be right for everyone. You should look at how well it meets your attitude to risk and investment goals. Like other investments, what you get back is not guaranteed and the value of your plan can go down, which will reduce the income you get in the future.

### Lifestyle or Automatic investment strategies

These generally work by moving your money between different types of investments taking into account how far you are from your selected retirement age. They’re designed to offer a well diversified mix of investment opportunities depending on your stage in life – higher risk investments if you’re relatively young, and lower risk investments if you’re nearing retirement age. While this could be a good way to invest for many people, you need to bear in mind that it may not be right for you as it does not take your individual circumstances into account. Like other investments, what you get back is not guaranteed and the value of your plan can go down, which will reduce the income you get in the future.

# What does it cost to make an investment?

Making expert decisions about buying and selling assets takes years of experience, so funds have charges for the services of their fund managers and administrators.

The total charge is made up of the following:

**Fund expenses**
These are deducted from the funds before the unit prices are calculated. They are additional expenses incurred in the day to day management of the funds' activities and include expenses, taxes, duties and other charges incurred in the purchase, sale, valuation and maintenance of the investments and auditors' and custodians' fees.

**Annual management charges**
These charges are taken by the fund manager to cover their costs and expenses. They are deducted from the fund every day before unit prices are calculated. They could change in the future.

# What's the next step?

As you can see, it's important to understand the level of investment risk you're prepared to take before you make an investment. There may be a wide range of investments to choose from, and each one can have a different investment strategy, level of risk and potential returns.

Once you are a member of your company plan, you'll be able to see how your money's doing at any time – it's always a good idea to keep a regular eye on your finances. You can view your investments' performance and decide whether you'd like to make any changes, add money, or move money – it's up to you.

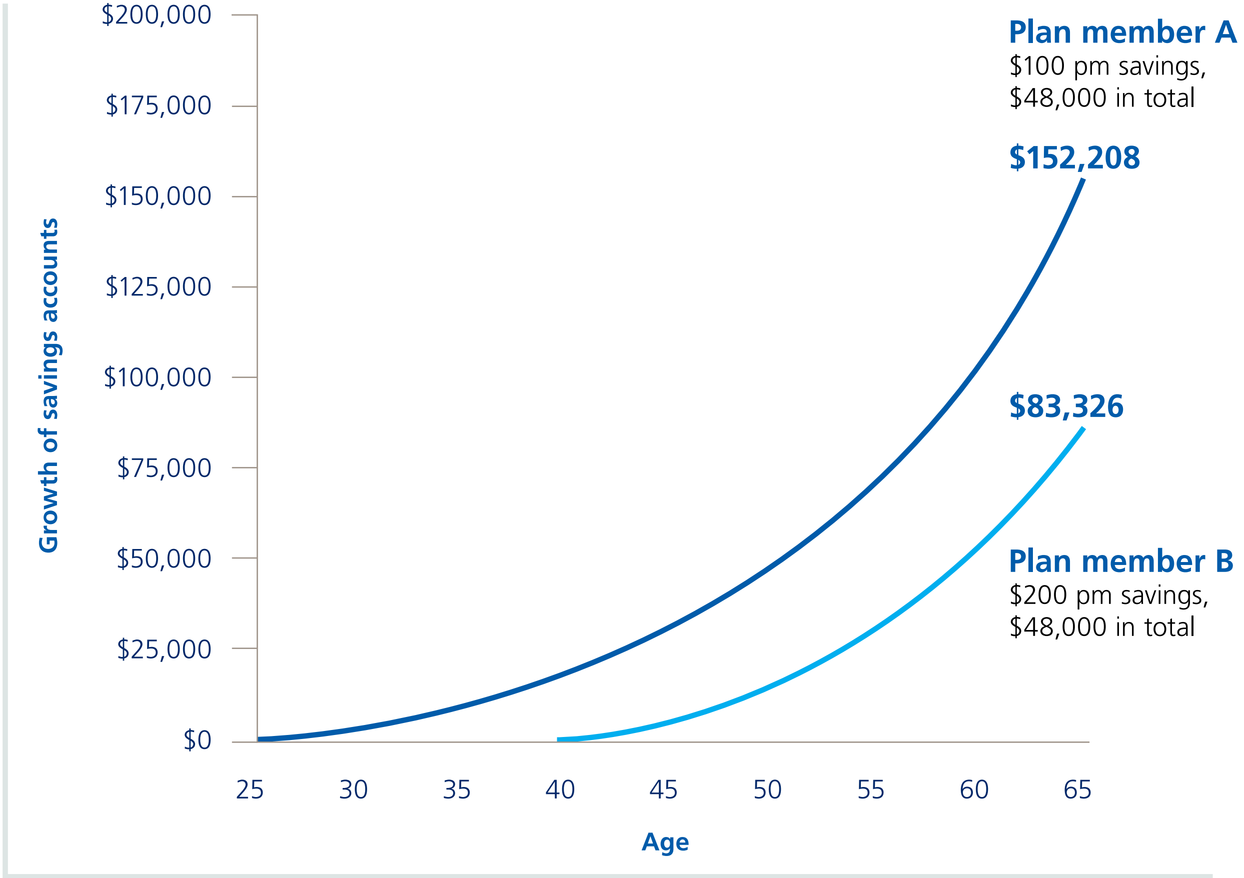
If you're not sure which investments are suitable for you, or if you are not confident in making a decision, then you should talk to a financial adviser. You will have to pay for any advice you receive.

# The importance of acting now

## The sooner you start investing the more your money is likely to grow because of the effect of compounding.

That's because when you invest your money you will hopefully benefit from investment growth from the funds you invest in and then, in future years, you may therefore receive growth on your money **and** on that previous growth, and so on. So your money grows faster.

The graph opposite may help to demonstrate this. Plan members A and B are both aged 25.
Plan member A saves $100 per month for 40 years, whilst plan member B waited 20 years before starting to save, but at $200 per month. Although both will have saved $48,000 by the time they reach age 65, plan member A has a much larger pot of money due to this compounding effect .




This graph is for illustrative purposes only and assumes investment growth of 5% each year. The value of investments can fall as well as rise.

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