Mutual Funds

This is all about

Investment Risk & Asset Allocation

from Standard Life

This guide has been written to help you when making decisions about how to invest your money.

There are three simple steps to this:

Step 1

Understanding the key factors in making investment decisions.

Step 2

Choosing how to invest your money.

Step 3

Selecting your funds.

Step 1

Understanding the key factors in making investment decisions

There are three important questions to ask yourself before making decisions about where to invest your money.

How much risk am I prepared to take?

Almost all investments carry some degree of risk. Knowing how much risk (or possible loss) you are comfortable taking is key to helping you decide which type of investment is right for you.

Risk is measured by the 'volatility' of the fund. By volatility, we mean how much the fund goes up and down in price on the stockmarket, over a period of time. Typically, the more the price of a fund fluctuates, the greater the potential there is for higher gains or losses if you invest in it.

So while your money will be generally safer in a low risk investment, it is also less likely to grow. On the other hand, while higher risk investments have more potential for loss, they also have potential for higher gain.

The key is finding a balance between the amount of risk you are willing to take and the potential rewards you want to achieve.

How long do I plan to invest for?

Generally speaking, investing in higher risk funds is more appropriate if you have a longer time to invest your money (for example, more than 5 years). This is because if you invest for the short term (for example, less than five years), and the value of your investment falls, there is less time for the ups and downs of the stockmarket to make up for this loss. However, if you invest for 10 years, it is reasonable to expect that the gains you make will outweigh any losses over that period.

What is my investment goal?

People invest for different reasons. However, most investment goals fit into one of the following categories:

- short-term stability
- long-term growth
- sustainable income

Once you've decided on your investment goal, with the help of your financial adviser, the next step is to choose which type of investment or 'asset class' to invest in.

Step 2

Choosing how to invest your money

You can choose to invest in funds from one, or a combination, of asset classes. An asset class is the name given to a category of investment such as cash, equities, bonds or property. Each asset class is different as it has its own risk and return characteristics. For example, cash is generally less risky than equities. It should be remembered though, that the performance of investments in any asset class can go down as well as up.

Let’s now look at each in turn.

Cash

Typical investment goal:	Short-term stability

Investing in cash means putting your money on deposit (for example, in a bank account) where it earns interest. Generally this will give you more security than equities, property or bonds, but less potential for growth.

Why invest?

Cash can help if you’re looking for a less risky investment to keep your money safe. Or if you want a temporary home for your money whilst deciding how to invest in the long-term.

Cash is less suitable for the long-term as there is more of a risk that inflation will erode the value of your money.

“It’s always a good idea to have something tucked away for an emergency or a ‘rainy day’. For me, being able to access it quickly and easily is important.”

Equities

Typical investment goal:	**Long-term growth**

Investing in equities means investing in companies. This means you are entitled to a share of the companies' profits (known as a dividend). So if a company does well, your shares may also increase in value.

Why invest?

Equities are best suited to long-term investment goals (over 5 years). This is because share prices move up and down every day, so you'll have a longer time to recover from any falls and benefit from any gains.

Although past performance is not a reliable guide to future performance, equities have historically produced better long-term returns than other asset classes.

Income & growth

You can invest in equity income and equity growth funds. Growth funds invest in companies whose share price is expected to grow, even if their current dividend payments are relatively low. Income funds invest in companies with higher dividends but whose share price is not expected to grow as much.

"It's a long time before my daughter goes to university so I have a number of years to invest. This means I can afford to take a few risks for potentially higher long-term gain."

Bonds

Typical investment goal:	Sustainable income

Investing in bonds means you are effectively lending money to a government or company. In return, they pay you interest and will repay the loan at a future date. The interest they pay can provide a relatively stable income.

Why invest?

Although bonds typically produce higher returns than bank or building society accounts, they don't offer the same level of security. They have historically produced lower returns than equities. However, past performance is not a guide to future performance.

Government & corporate

There are different types of bonds – UK government bonds and corporate bonds. Corporate bonds are issued by companies and generally pay a higher rate of interest and so potentially provide higher returns. However, as with most investments with potential for higher returns, they also carry more risk.

"Although my pension will be my main source of income when I retire, I want another relatively stable investment that will give me that little bit extra when the time comes."

Property

Investing in property means you invest directly in commercial and industrial property.

Why invest?

Property has historically had lower returns than equities but higher returns than bonds and cash. However, past performance is not a guide to future performance.

If you decide to invest in a property fund, you should know that property can be difficult to sell. This means it may take longer to sell property investments than investments in other asset classes. The valuation of the property is generally a matter of a valuer’s opinion rather than fact.

Specialist funds

Specialist funds are funds that don’t fit into any of the above categories, for example they may invest in a specific sector of equities only (such as global technology funds), or they may invest in emerging markets’ equities e.g. Russia, India and China.

Should I mix my assets?

Most people are familiar with the phrase, ‘don’t put all your eggs in one basket’ – this is what getting the right asset mix is all about. For example, if you have a long-term investment goal, such as providing for your children’s education; you might choose to spread your investment between bonds and equities. This is because although equities can give the best opportunity for growth, they can also be volatile, so you might want to combine this with the security offered by bonds.

Example asset mixes

We have seen that different types of investment have different risk and return characteristics. We also know that mixing your assets can be a good way of spreading risk and helping you meet your investment goals.

So, with the three common investment goals in mind, we’ve developed example asset mixes you may want to use for guidance when deciding how to invest your money. We recommend discussing these with your financial adviser.

Throughout the asset mix descriptions we refer to historical information but please remember that past performance is not a reliable guide to future performance. Please note these asset mixes are for illustrative purposes only and should not be taken as advice. If you are in any doubt about picking an asset mix, we recommend you speak to your financial adviser. There may be a cost associated with obtaining advice.

Profile 1: Short-term stability

Cash	100%

Typically suitable if you:

- require a relatively stable investment
- are not seeking significant growth
- are investing for a short-term.

How does it work?

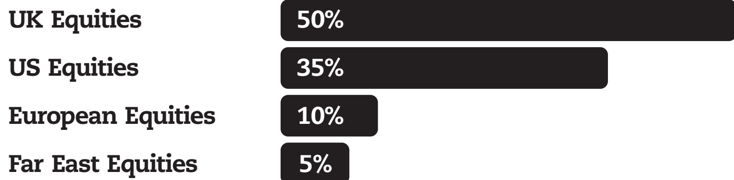
Cash can be held either as part of your chosen asset mix or on deposit with Standard Life Bank. Cash is the most stable asset class and has historically produced lower returns than bonds or equities, although past performance is not a reliable guide to future performance. It may be more suitable for short-term investing as there is a risk of inflation eroding the real value over the longer term.

For more information on Standard Life Bank's range of savings options please call 08457 55 56 57 (call charges may vary). Lines are open between 8.00 am and 6.00 pm Monday to Friday

You can also visit www.standardlifebank.com or speak to your financial adviser.

Profile 2: Long-term growth

Opportunity Growth – 100% equities



Typically suitable if you:

- have a long-term (more than five years) to ride out stockmarket ups-and-downs
- are looking for maximum long-term growth prospects
- can accept the risk of substantial market falls.

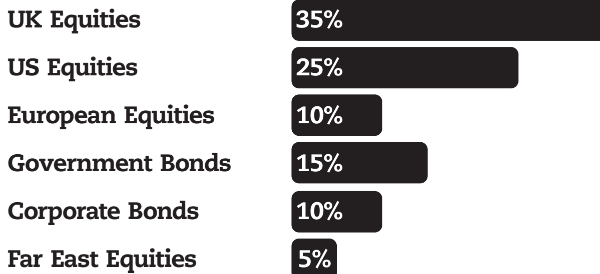
How does it work?

Equities have historically given the greatest long-term returns so concentrating your investment solely in equities gives full exposure to this potential. A mix of UK and overseas equities helps diversify your portfolio, giving exposure to overseas markets and currencies.

Prefer to take less risk? Consider profile 3.

Profile 3: Long-term growth

Balanced Growth – 75% equities, 25% bonds



Typically suitable if you:

- want a lower risk alternative to the opportunity growth profile
- are looking for good long-term growth but are happy to forego some potential growth for improved stability
- have a long term (more than five years) to ride out stockmarket ups-and-downs
- can accept the risk of significant market falls.

How does it work?

Equities have historically given the greatest long-term returns so this profile has a heavy equity weighting, including some overseas exposure. A significant proportion is invested in bonds to diversify from equities, producing a more balanced portfolio overall. Increased stability comes at a price though – bond investments have less potential for high returns than equities. However, the portfolio as a whole still retains good growth prospects. Please remember, past performance is not a guide to future performance.

Prefer to take more risk? Consider profile 2.

Prefer to take less risk? Consider profile 4.

Profile 4: Long-term growth

Cautious Growth – 40% equities, 60% bonds

Asset	Allocation
Government Bonds	30%
Corporate Bonds	30%
UK Equities	20%
US Equities	15%
European Equities	5%

Typically suitable if you:

- want a lower risk alternative to the balanced growth portfolio - for example if you don't have as long to invest
- are looking for long-term growth but are happy to forego some growth for improved stability
- can accept some risk of market falls.

How does it work?

This profile spreads assets across bonds and equities, with a heavy bond weighting for stability, whilst retaining some equity investment to give some potential for higher returns. Exposure is given to both government bonds and corporate bonds to increase diversification. Some overseas equity exposure is also included for added diversification.

Prefer to take more risk? Consider profile 3.

Profile 5: Sustainable income

Balanced Income – 100% bonds

Corporate Bonds	75%
Government Bonds	25%

Typically suitable if you:

- are looking to sustain a higher level of regular income
- can accept some risk of market falls.

How does it work?

This portfolio invests wholly in bonds, with a strong concentration on corporate bonds. These offer greater income potential because they pay higher interest than government bonds although they do introduce more risk in comparison.

You should be aware that there are different types of corporate bond. Broadly speaking, 'AAA' rated funds invest in the highest quality corporate debt – these are relatively stable but because they are lower risk this means the income you get is likely to only be slighter higher than that from government bonds. 'Higher Income' funds, on the other hand, tend to invest in lower quality corporate debt – they pay a higher income but the fund price will be more volatile. Most corporate bond funds are a diversified mix of different credit qualities.

Prefer to take less risk? Consider profile 6.

Profile 6: Sustainable income

Cautious Income – 100% bonds

Asset	Allocation
Corporate Bonds	50%
Government Bonds	50%

Typically suitable if you:

- seek a lower level of income
- prefer less risk of market falls.

How does it work?

This portfolio invests wholly in bonds. The portfolio diversifies between government and corporate bonds, broadly in line with their respective market sizes, to give some exposure to the higher income producing corporate bonds.

Prefer to take more risk? Consider profile 5.

Reviewing your investment

Once you have chosen an asset mix that suits your goals, it is important to review your investment regularly for two reasons:

- to keep you on track for meeting your goals
- in case your needs change.

Keeping your portfolio on track

Different parts of your portfolio will perform differently over time. For example – if you invested 80% in equities and 20% in bonds, over time equities may outperform bonds so the portfolio could become 90% equities and 10% bonds.

This means that left unchanged, you could be taking more risk than you really want. If this happens you can change your portfolio back to your intended asset mix by changing some equities for bonds in our example. We call this process rebalancing your investments to bring them back into line with your original goals. You can speak to your adviser about this.

Changes in your needs

Your asset mix should suit your personal needs in terms of your investment goal, the level of risk you are comfortable with and the amount of time you wish to invest. However, both these needs and your personal circumstances may change. You should revisit your decisions with your adviser regularly. Your review meetings, for example, are a perfect opportunity for this.

Step 3

Choosing your funds

Now you have determined a suitable mix of assets, the next step is to choose your investment funds. Please speak to your financial adviser who will be able to help with this.

Pensions
Mortgages
Savings
Investments
Healthcare
Insurance

Speak soon.

For more information on the products in this booklet or if there is anything more about Standard Life we can help you with, please call us on this number (call charges may vary) or go to the website below:

0845 279 2002

www.standardlife.co.uk

Products provided by subsidiaries of Standard Life plc or other specified providers.

Standard Life Savings Limited, registered in Scotland, (SC180203), Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH, (telephone number 0845 279 1001). Authorised and regulated by the Financial Services Authority. *Calls may be recorded and monitored.*

FZMF20 608 3M ©2008 Standard Life