

# A GUIDE TO INVESTING



**WESLEYAN**

*we are all about you*

## Saving or investing?

Saving is generally considered to be the habit of putting away small amounts of money on a regular basis, usually for a specific purpose. Savings are usually held in cash or in a deposit account for ease of access in the shorter term.

Investing is more to do with where you put your money in order to try and maximise its value, over the medium to long term. Investments can be made:

- ▶ on a regular basis – for example, monthly payments into an investment product such as a Stocks and Shares ISAs
- ▶ as a one-off lump-sum (such as investing into unit trusts and Capital Investment Bonds).

Understanding how and where to invest your hard-earned money can, at times, be complex and rather confusing.

There are many options open to you, so it's important to understand which types of investment would be suitable for you and your circumstances.

Our expert Financial Consultants can offer you practical advice to help you invest in the right solution for you.

## Making a start – where you can invest

The investment world can appear confusing, but essentially, aside from cash, there are three main types of investment – shares (or equities), fixed interest (or bonds and gilts), and property.

You can invest directly into shares, fixed interest and property to build up your own portfolio. Alternatively, you can invest into professionally managed funds that are made up of a mixture of one or more of these asset classes.

**It's important to remember that any investment involves some element of risk. As a result your capital could be at risk and you could get back less than you invested.**

## Cash

Cash includes money deposited with banks and other financial companies. Interest is paid on the deposit amount and once added, can't be taken away.

## Shares (or equities)

These are ownership stakes in companies and are commonly traded on stock exchanges around the world.

If the company is successful and the value of the shares rises, your investment will grow in value. The value of your investment will therefore depend upon the fortunes of the company, although you need to remember that shares could fall or rise depending on factors outside the company itself, such as the economy and the general state of the stock market.

Company shares can also provide income, payments of which are called dividends. Most companies pay dividends twice yearly.

Of course businesses vary; investing in a well established company with a proven track record is very different from investing in a new venture. The large, established companies are generally more stable, but may not offer the same level of potential growth as newer, smaller firms.

There are different ways of classifying companies:

- ▶ Geographic location - UK, Europe, Asia, North America or Emerging Markets.
- ▶ Business sectors - pharmaceuticals, oil, retail, and manufacturing.
- ▶ Size of company - large, medium and small.
- ▶ Companies in growth mode and established companies paying regular dividends.

Predicting how a particular company will perform is very difficult, given the many factors that can affect its value. Investing in a variety of companies across different sectors of the economy, or even different economies, will help to manage risk. This is known as diversification and is a benefit of investing in funds.

Shares may be more suitable for investors who are seeking capital growth and are comfortable with risk to their capital. They can also provide income, in the form of dividends but income from shares can rise or fall, and is not guaranteed. Income from dividends may be subject to Income Tax. If a profit is made on the sale of shares it is potentially liable to Capital Gains Tax.

## Fixed interest (bonds and gilts)

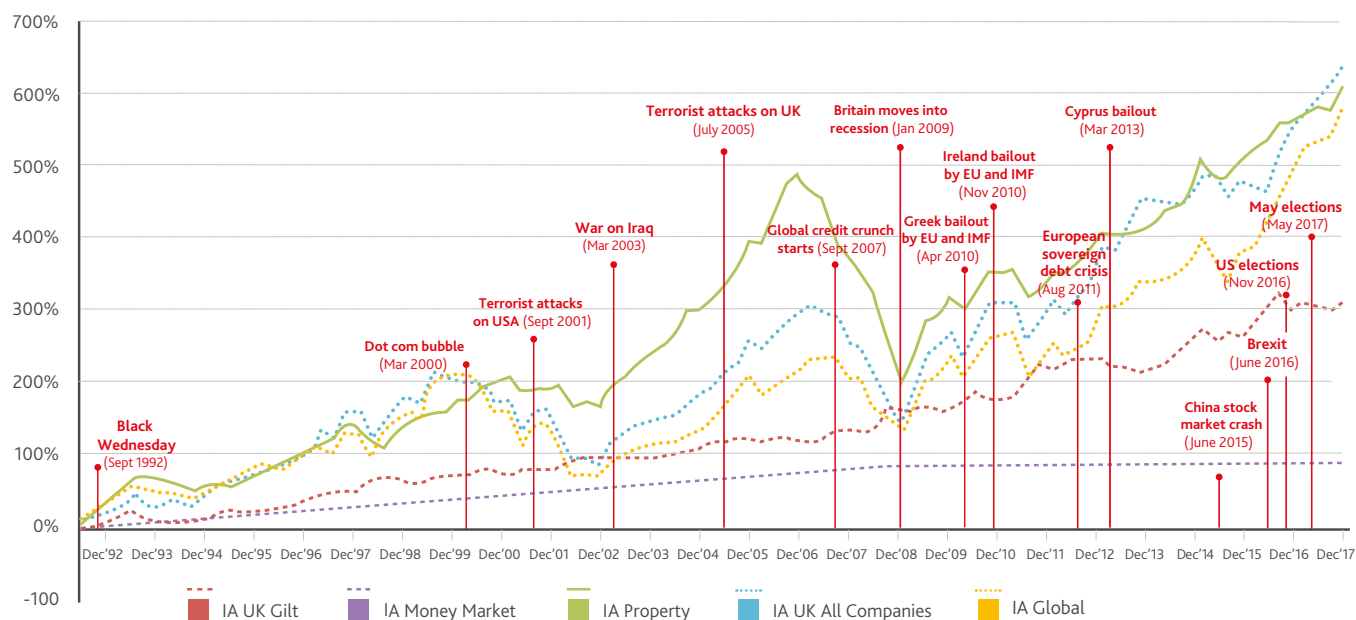
Governments and companies issue bonds as a way of raising finance. For historic reasons UK government bonds are called gilts. In effect these bonds are loans, because investors are essentially lending their funds to the issuer. How safe an investment is depends upon the credit worthiness of the bond issuer. As a rule of thumb, lending to a major government tends to be very safe, large companies are a little less secure, small companies can be riskier, and so on. Credit rating agencies, such as Standard & Poor's and Fitch, grade the investment risk of bonds. Those with a poorer credit rating will typically offer a higher potential return to offset the higher degree of risk of default. Bonds typically pay a fixed level of interest. Corporate bonds and gilts are bought and sold on the stock market, so you don't need to invest in one when it is first issued, nor hold it to the repayment date. Although the prices of bonds do change and can fall in value, they tend to be less volatile than shares. Some funds invest wholly in bonds, again offering diversification to help manage risk.

## Property

Another major type of investment is property. This comes in many forms, but can broadly be split between residential and commercial. There is a wide range of commercial property – office blocks, retail, factories, warehouses, and so on. While it is possible to invest directly into commercial property, most investment is made through funds.

Property offers a way of diversifying investment from shares and bonds, and helps manage overall investment risk.

**The historical performance of different investment types (cash, equities, fixed interest (bonds and gilts), property), 1992-2017:**



The Investment Association (IA) UK All Companies sector comprises of funds which invest at least 80% of their assets in UK equities.

Source: Financial Express, July 2018.

The underlying prices behind the data above are bid to bid. Remember past performance is not a reliable indicator of future performance.



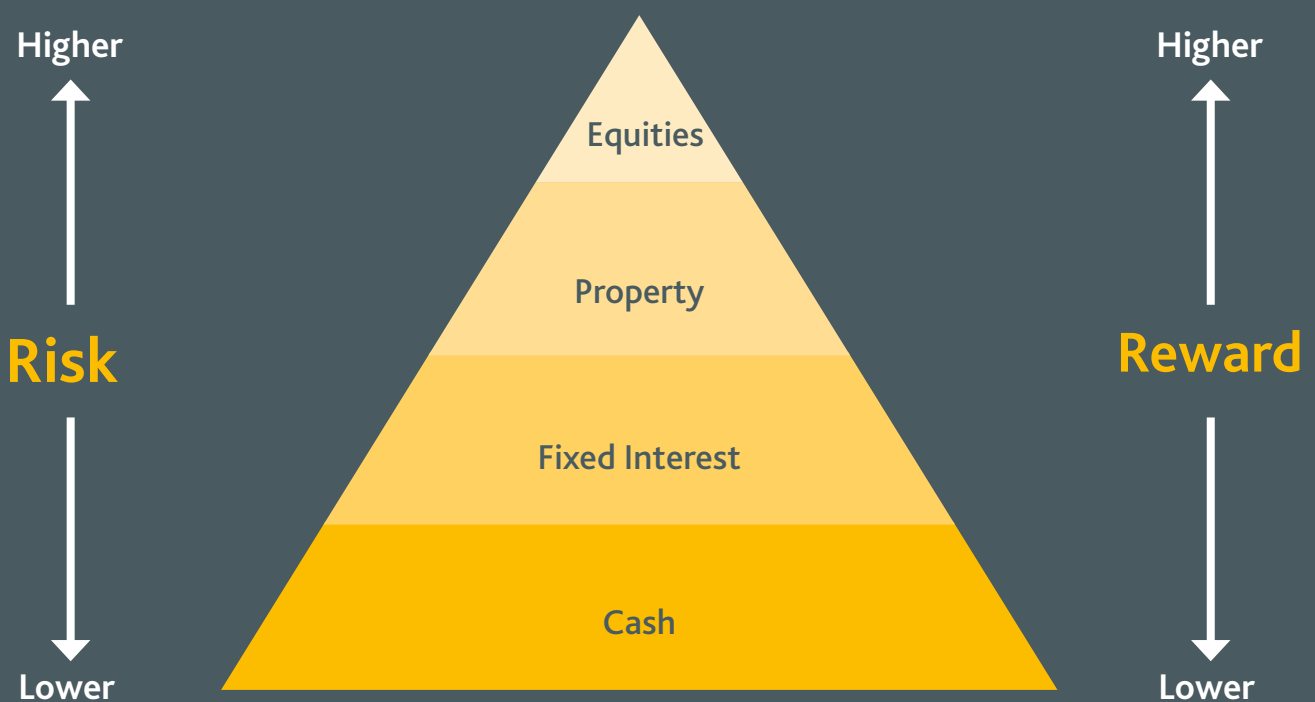
## Understanding risk and reward

Risk and reward are closely linked when you are deciding where to invest your money. Putting your money into assets with higher levels of risk, such as property or shares can potentially lead to higher returns over a longer period, and may give you real returns over and above the rate of inflation. On the other hand, cash and fixed interest investments may offer a relatively secure home for your money, but are less likely to beat inflation over the longer term.

When you are making investment decisions, it is important to establish your individual attitude to risk for the sum of money you are currently investing. For example, consider how long you will

be able to leave your money invested, and whether you can afford to suffer any losses, even if they are temporary. If you think you might need the cash in a few months' time to pay for a holiday or a new car then a savings account is likely to be a safer, more sensible option.

But if you are planning to save for many years, for example to help you pay for retirement or to put your children through university, taking on more risk in the hope of generating greater returns over the longer-term may be more appropriate.



## Types of investment risk

There are a number of different risks associated with saving and investing:

- ▶ **Capital risk** - The value of investments can go down as well as up and you may not get back what you put in. Share and bond prices can fluctuate daily.

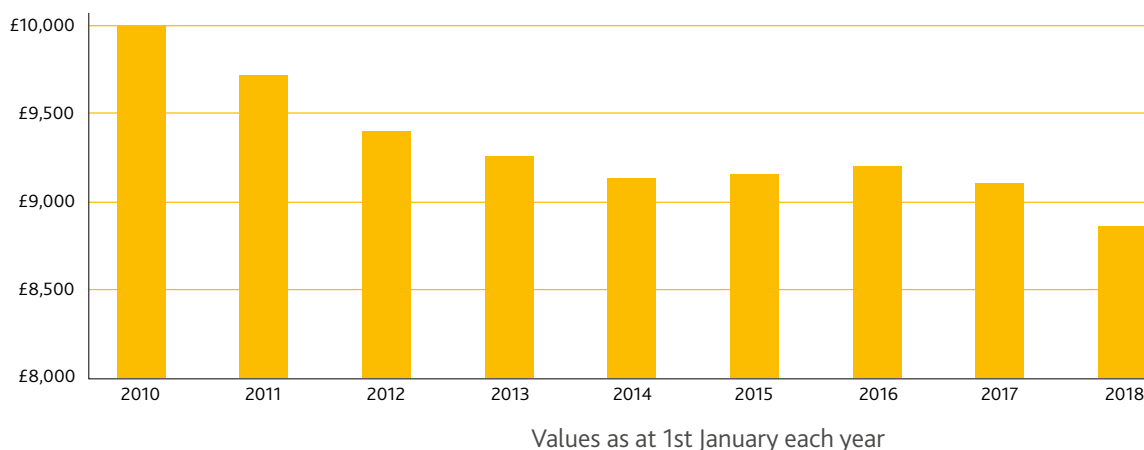
Your investments may not perform as well as you expect, and may not provide you with the capital or income that you'd like or will need in the future. You need to make sure that you monitor the performance of your investments.

- ▶ **Accessibility** - You may not be able to get your money as quickly as you need it, as some investments can't be cashed in instantly. Property for example can take time to sell.

- ▶ **Currency** - Investing in assets overseas has a risk of fluctuations in currency exchange rates. An adverse change in currency exchange rates could reduce or cancel out any gains made, though a positive change can increase growth.
- ▶ **Interest rates** - A change in interest rates could also affect the investment, as each type of investment is affected by rises and falls of interest rates in different ways.
- ▶ **Inflation** - Inflation is the general rise in prices of goods and services over a period of time. It means that the amount that you can buy with a sum of money will decrease over time.

## Inflation

This graph shows the effect inflation has on the buying power of your money over time. It shows that £10,000 invested in an instant access savings account in 2010 would buy you the equivalent of less than £9,000 worth of goods and services by 2018:



Inflation is Consumer Price Index (CPI) and cash is assumed to be invested in an instant access savings account for over £10k.

**Source:** Financial Express, July 2018.

## Pooling your investments

For most individuals, buying shares in one or two companies may be an excessively risky approach to investing. Investment funds, however, can hold a wide range of assets, such as shares, bonds and property on behalf of thousands of private and institutional investors. These funds use the investing principle of diversification to reduce their risk: there is a lower probability of all the assets in a fund falling in value at the same time, so there is less chance of investors losing their money.

Over the longer-term – usually five years or more – investment funds can often be expected to provide higher returns than cash savings accounts, which is particularly important given the effect that inflation can have on cash holdings. This is why they are more often used for long-term savings such as pensions. However, with most types of investments, such as those in company shares, there is no guarantee that your money is safe.

Pooling your investments with those of other people through an investment fund may offer several advantages including:

- ▶ **Reducing investment risk** – A Fund Manager can buy a wider range of investments than most individuals are able to do.
- ▶ **Simplicity** - It is easier to track a single fund value rather than tracking multiple individual shares or assets.
- ▶ **Professional investment management** – A specialist Fund Manager will use their knowledge and experience to make all the decisions of when to buy, sell or hold investments within the fund, based on the fund's stated objectives.
- ▶ **Dealing costs** - Due to economies of scale the Fund Manager will normally incur lower dealing costs than an individual acting alone.

## An active approach to investing

Wesleyan take an active approach to investing. Our Fund Managers actively research the market and pick particular stocks that they believe will deliver superior returns.

The alternative to this is a passive management style, also called 'tracking'. Passive Fund Managers select an index (for example the FTSE 100 or All Shares index) and then construct their fund to mirror the stocks included in that index. In this way, the fund will track the performance of the index and its returns.

The downside of passive management is that you will only ever match the return of the index, whereas active managers have the opportunity to try and outperform the index.

We believe that it's important to aim for real returns from your investments; that is returns that will outstrip inflation over longer time periods. We aim to achieve this by buying and holding good quality assets and monitoring their performance on a regular basis.

## Types of funds

Funds are divided into sectors based on the types of investments that they hold and the way that their portfolios are structured. For example:

- ▶ **Fixed Interest** - Funds that invest into government bonds and corporate bonds. These funds tend to be less volatile than equity funds, but they can go down as well as up.
- ▶ **UK Equity** - Funds investing into UK shares. These can vary from 'blue-chip' (large established firms) to smaller companies, each offering different levels of risk and potential return. This includes UK Equity Income funds that invest into UK shares that aim to pay above average dividends.

- ▶ **Global Equity** - Funds investing into the shares of overseas companies. These funds can cover all markets, or particular geographical areas such as Europe, America or the Far East. Such funds do carry an additional currency risk as the exchange rate, used to convert between pounds sterling and the local currency in the selected markets, can fluctuate.
- ▶ **Property** - Funds that invest into commercial property, typically large city centre office blocks. Alternatively, some property funds specialise in shares in property owning companies rather than the properties themselves.
- ▶ **Multi-asset, Managed and With-Profits** - Funds that are invested into a diverse range of assets, usually including bonds, shares and property. These funds can provide diversification of investment assets in one fund.
- ▶ **Multi Manager** – Funds that are invested in a mixture of other funds that specialise in certain assets. They benefit from a range of Fund Manager expertise but often this comes with additional charges.

## Attitude to risk

We recognise that different people have different attitudes to risk, and even different attitudes to risk for different portions of their money. A small amount of money set aside for a planned purchase in a few weeks will be viewed differently to funds set aside to pay for university fees in 10 or 15 years' time.

When investing your money with Wesleyan it is important that we establish your attitude to risk for that investment so that we can recommend the right investment fund for you. To help with this process we have developed five risk descriptions so that we can assess which scenario best describes you and recommend the appropriate fund for your investment.

In the same way you need to consider your capacity for loss, in other words, how much of the investment you could afford to lose, if the investment performs badly.

Our funds are categorised by the level of risk they involve, based on their underlying asset allocations, and we map these across to match our customers' broad attitudes to risk, based on the following descriptions.

## Risk Profiles

When thinking about investment risk, the main concern is often the risk of receiving back less than was initially invested. Another concern is the level of volatility (increases and decreases in value) of the investment whilst it is invested and how comfortable you feel with that.

Risk and reward are often described as going hand in hand, as usually the greater the risk taken the greater the potential return – but equally the greater the potential loss in value.

Also, if your aim is to preserve the initial sum invested and little or no risk is taken, the effects of inflation are likely to reduce the buying power of your money.

Wesleyan offer a range of investments with different levels of risk and potential return, these are graded in increasing levels of risk which are described as:

- ▶ Risk Averse
- ▶ Low Risk/ Reward
- ▶ Moderate Risk/ Reward
- ▶ Moderate-high Risk/ Reward
- ▶ Higher Risk



The more detailed description for each level of risk is as follows:

Risk name	Risk description
Risk Averse	<p>A risk averse investor does not feel comfortable with any fall in the value of their investment. The security that money will not fall in value given by cash based investments, such as bank or building society deposit accounts, is of higher priority to them than the prospect of higher returns which may be available from other types of investments.</p> <p>Depending on the balance between inflation and cash interest rates the buying power of their money could be eroded over time. However, the risk averse investor feels more comfortable with this than they would taking any greater risk with their investment.</p>
Low Risk/ Reward	<p>The low risk investor is usually looking to try and achieve a higher level of return than is available from cash based investments. They are more likely to spread the risk of investing across different types of investments with the intention of achieving a stable but small return, rather than taking the risk required to achieve significant returns and understand there can be a risk to capital.</p> <p>The low risk investor may have limited investment experience, or simply be generally cautious and might describe themselves as being careful with their money. The potential for greater returns at the expense of a more volatile investment experience does not appeal, they are satisfied with the opportunity of a better return than cash deposits offer, but have no aspirations to achieve more than this.</p>
Moderate Risk/ Reward	<p>Those who have a moderate risk approach generally want to benefit from the potentially higher returns of stock market (share based) investments but are not comfortable with the fluctuations in value associated with investing entirely in shares. Moderate risk investors tend to view themselves as having a balanced approach to investing, they do not want to take excessive risk but equally they want to know their money is working for them and has the potential to earn more than lower risk investments.</p> <p>The moderate investor feels quite calm about the fact that the value of their investments may go up and down and is comfortable looking more at the medium to long term returns rather than worrying about day to day fluctuations. They accept that there is a risk of their investment making a loss. Moderate risk investors do not want the volatility associated with 100% share exposure (where the value of the investment is prone to potentially significant fluctuations) and tend to prefer funds which include other assets to spread the risk, or alternatively funds which may invest heavily in shares, but restrict the volatility the investor experiences.</p>
Moderate-high Risk/ Reward	<p>The moderate-high risk investor has little concern about stock market fluctuations and is excited by the possibility of higher returns in the long term, often holding a high proportion of their investment in share based assets. They have few concerns about reports of stock market movements on television and in the press because they understand returns will be variable over the long term and will often see falls in the stock market as an investment opportunity.</p> <p>The moderate high risk investment approach is sometimes taken with a proportion of a portfolio rather than with all of it. This provides the opportunity for higher returns in relation to specific amounts or with specific objectives in mind. Such an approach may also be taken by those who are comfortable they have sufficient income or other resources to rely on during periods of poor investment returns and the increased risk of their investment making a loss.</p>
Higher Risk	<p>Higher risk investors typically have a good understanding of how financial markets work gained through investing in different types of investments over a number of years, experiencing both losses and gains. They are unconcerned by stock market fluctuations, completely comfortable with investing entirely in shares and lose no sleep when stock markets fall, often seeing this as an opportunity to invest when markets are low. They are likely to be excited by the prospect of gambling on the potential for higher returns.</p> <p>The high risk investor is completely prepared to accept the prospect of significant and sustained losses and falls in value in exchange for the potential of high returns in the long term. They may have other lower risk investments to fall back on and are very comfortable with significant levels of volatility (increases and decreases in value) in their high risk investments. The high risk investment is sometimes seen as money they can 'afford to lose' and as such they are prepared to take the risk of significant losses for the opportunity of a high return.</p>

## Let us help you with your investment options

Let us help you to identify which investment options are right for your individual circumstances by booking a no-obligation appointment with your local Wesleyan Financial Consultant. They are specially trained to understand the unique financial circumstances of professionals like you, and can meet at a time and place convenient to you.

Email: [financialreview@wesleyan.co.uk](mailto:financialreview@wesleyan.co.uk)

Telephone: **0800 975 4970** (please quote reference number: **80669**)

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