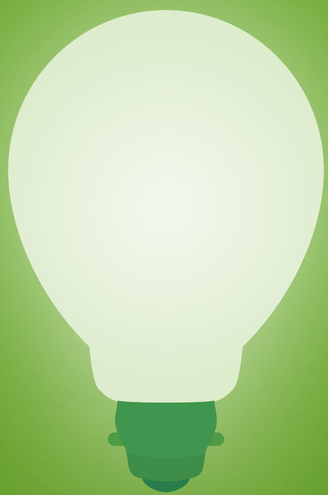
INVESTING:
WHERE DO I START?



OLD MUTUAL INTERNATIONAL

WELCOME TO THE PRINCIPLES OF INVESTMENT

The following chapters in this e-book aim to provide a broad understanding of particular investment topics.

The value of investments can fall as well as rise and investors may not get back what they have invested.

Old Mutual International does not provide investment advice. The content in this e-book is provided for information purposes only, and should not be relied or acted on by the recipient. It is not a recommendation to buy, sell or hold a particular investment.

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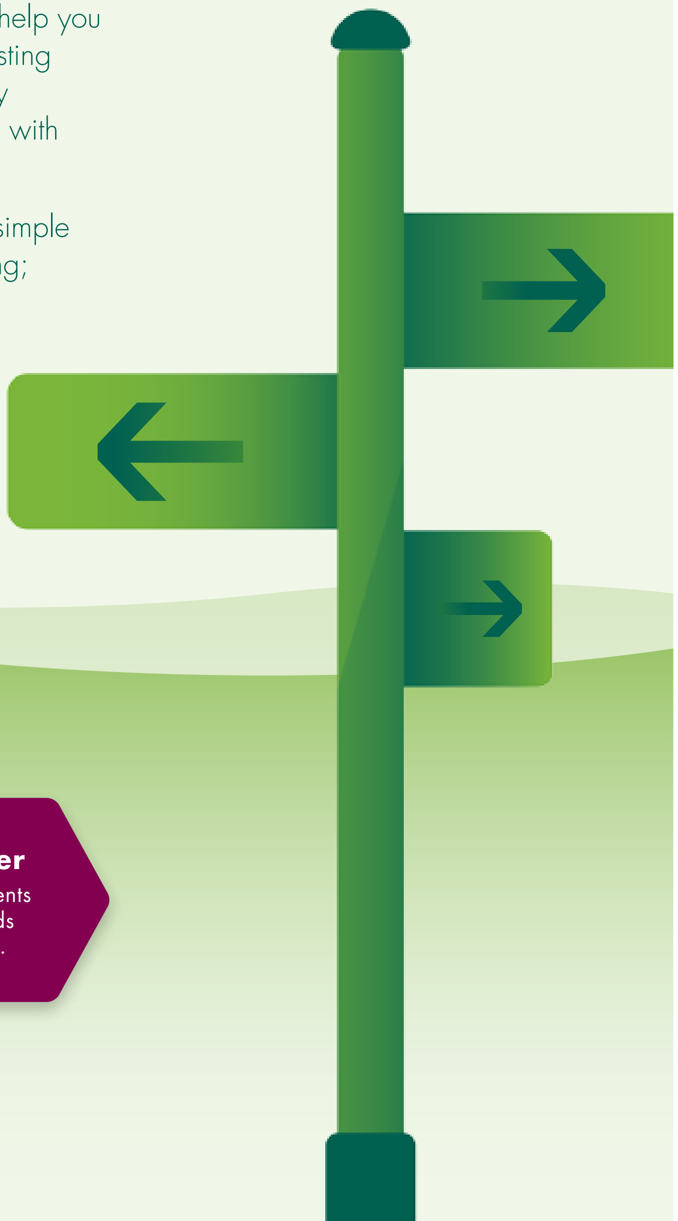
CHAPTER 1

INVESTING: WHERE DO I START?

Welcome to our Principles of Investment e-book which will help you understand the basics of investing and arm you with introductory knowledge to aid discussions with your financial adviser.

Successful investing is about simple principles and careful planning; not gambling.



Speak to a financial adviser who will be able to recommend investments that are suitable for your individual needs and that best fit your specific risk profile.

If you're thinking about investing for the first time, it may seem a rather daunting step. You might not be sure what the difference is between a share, a bond and a fund, let alone which one could be right for you. And the way that some people talk about the financial markets can make them sound more like a casino than a place where you would want to put your life savings.

Yet for most of us, investing – as opposed to saving our cash in a bank – is a crucial part of our financial planning. It offers the chance of higher returns, giving us a better chance of building up wealth to fund our long-term goals.

There are certainly risks associated with investing, but those can be reduced if you invest in a certain way. Learning how to do this is the key to making the best of the opportunities available.

PREPARING TO INVEST

Begin by making sure that your finances are on a stable footing, starting with a review of your current financial position. This should include looking at your existing income along with any regular expenses or outgoings, and debts which you might have. It doesn't usually make sense to invest if you have high-interest debts such as credit cards to pay off. That's because the interest rate you're paying may be higher than the returns you're likely to earn from investing. In other words, you may be better off putting any spare cash towards paying off your debts.

"There are certainly risks associated with investing, but those can be reduced if you invest in a certain way."

Investments are a long-term decision, so you should also make sure you keep a separate emergency savings pot to draw on if you need cash urgently. How much you need depends on your circumstances, but as a general rule you should have at least enough savings to cover three months' worth of regular expenses.

EDUCATE YOURSELF BEFORE DIVING IN

The next step is to learn about the likely risks and returns of various types of investments. Doing this before investing any money in the markets is important, because many new investors begin with unrealistic expectations. This means that they may take on too much risk in chasing after high returns and end up losing money.

So you should begin by reading about the difference between major types of investments such as shares, bonds and property, and the kind of returns that they have delivered in the past and might be expected to deliver in the future.

Once you've got to grips with this, you can start thinking about what kind of investor you are and which investments might be most suitable for you. This means taking into account your financial and life circumstances (which will affect your ability to take risks) and your personality and attitudes (since this affects how willing you are to take risks).

You should aim to hold a range of investments that perform differently in different circumstances, since this will increase your chances of earning good returns whatever happens to the economy. This is known as diversification and it's one of the most important lessons to learn in investment.

WHICH KINDS OF INVESTMENTS MIGHT BE MOST SUITABLE FOR YOU?

SHARES

BONDS

PROPERTY

IF YOU'RE NOT SURE, ASK A FINANCIAL ADVISER

Once you understand the principles of investment, it's time to think about the practicalities. For example, look into tax-efficient ways to invest, such as offshore life assurance policies.

All this may sound like a lot to take in. As with everything in life, successful investing requires work to master the basics. The chapters in this e-book will help you to get started, but you should also speak to a financial adviser. They can explain how all these principles apply to you and help you create a diversified investment portfolio.

"Investments are a long-term decision, so you should also make sure you keep a separate emergency savings pot to draw on if you need cash urgently."

CHAPTER 2

UNDERSTANDING BONDS

This chapter is designed to offer a basic understanding of bonds

Speak to a financial adviser who will be able to offer further advice about bonds and whether they are a suitable investment for your needs.

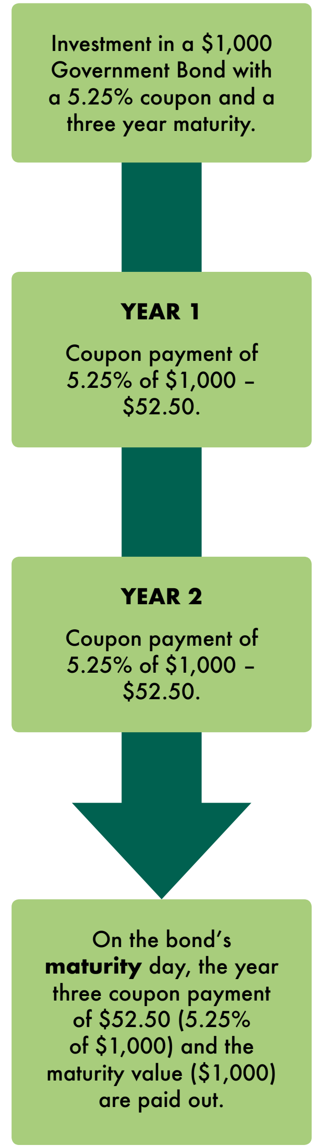
WHAT IS A BOND?

- A bond is effectively a loan to a government or corporation.
- When you invest in a bond, you are lending money to the organisation that issued it. In return for the investment, the issuer delivers an agreed level of income in the form of a rate of interest (the 'coupon').
- At an agreed date, the government or corporation will return the face value (the original issue price, see page 12 for full definition) of the bond, known as the maturity value.

In many ways bonds and shares are constantly in competition for investors' money. When the stock market is falling, investors often turn to the bond market for more stable returns. Investing in the bond market can also be an easy way to add diversification, ultimately reducing the overall risk in a portfolio.

The illustration to the right demonstrates the lifecycle of a bond as if held from the day of issue.

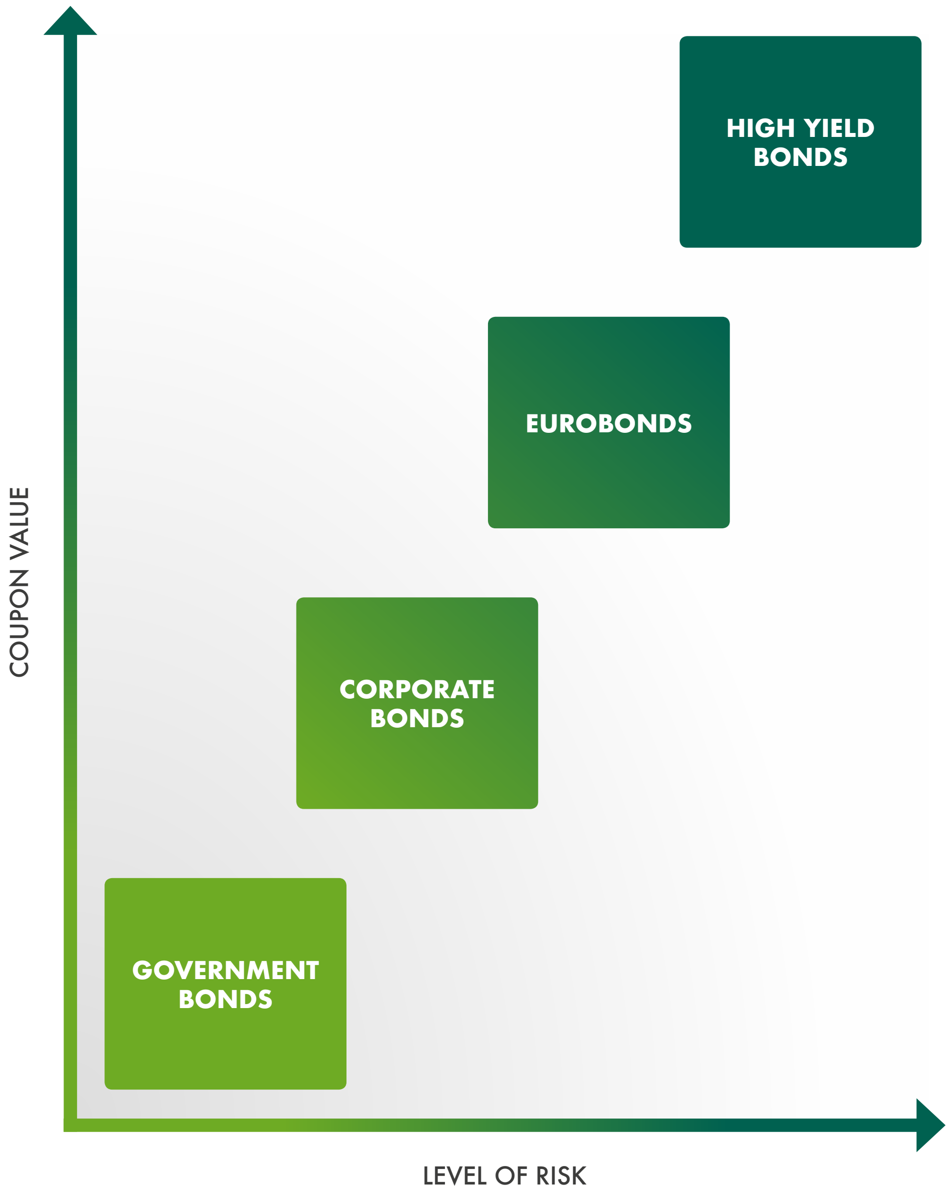
Most bonds can be bought at any time in the secondary market, not just on the day they are issued. The market price of a bond may actually be more or less than its face value. As a consequence, and despite receiving a regular income, the value you receive at maturity may be less than the capital amount invested. Please refer to 'what are the risks?' on page 12 for further details.



You pay a premium to buy the bond and receive a 'coupon' (the yearly interest payment) in return, for the duration of the bond. The premium is paid back to you at the maturity of the bond.

WHAT ARE THE DIFFERENT TYPES OF BONDS?

There are several types of bonds, each offering different levels of return, with corresponding levels of risk:



HIGH YIELD BONDS

Bonds with a credit rating of BB (Standard & Poor's)* or Ba (Moody's)* or below are speculative investments, (see 'what are the risks' on page 12 for a full explanation of bond ratings). They are called High Yield Bonds or Junk Bonds and are considered to be at a higher risk of default (see page 13), but can potentially offer more growth. Such bonds are typically issued by start-up companies, companies that have had financial problems, or are in a particularly competitive or volatile market, and those featuring aggressive financial and business policies.

EUROBONDS

A bond issued in a currency other than the currency of the country or market in which it is issued. Eurobonds give issuers the flexibility to choose the currency in which to offer their bond.

CORPORATE BONDS

Corporate Bonds are debt obligations or IOUs issued by private and public corporations. Companies use the proceeds they raise from selling bonds for a variety of purposes, for example expanding the business.

GOVERNMENT BONDS

The Government Bond market is the largest fixed-income market in the UK. The US Treasury Bond market is the largest in the world and is guaranteed by the US Government. In Germany, the Government Bonds are called Bundesrepublik Anleihe, or Bunds, and the French Government issues bonds known as Obligations Assimilables du Trésor (OATs). In the UK, Government Bonds are known as Gilts.

*For more infomation on these rating agencies, please visit their websites: www.standardandpoors.com and www.moodys.com

WHAT FACTORS AFFECT THE PRICE OF BONDS?

Interest rates

Interest rates constantly change in response to supply and demand of credit, fiscal policy, exchange rates, economic conditions, market sentiment and changes in expectations about inflation. As these factors change, so do bond prices.

When interest rates rise, new bond issues come to the market with higher yields than older bonds, making the older ones with lower yields less attractive. Hence their price goes down.

Yield

The yield is the rate of return on an investment and is expressed as a percentage. The yield is calculated by dividing the annual interest payment by the current market value. As the price of a bond declines, its yield rises.

For example:

Let's look at a bond issued with a 4% coupon. If you were to buy $1,000 worth at launch, you would receive $40 in the first year ($40/$1,000 = 4%). But if the market value of the bond drops to $800, the yield rises to 5%. Why? Because the coupon – $40 – is now 5% of the $800 market value of the bond ($40/$800). If the market value rises to $1,200, the yield will fall to 3.33%.

See calculations below:

Bond Value	Return On Investment	Yield
$800	$40 ($40/$800)	5%
$1,000	$40 ($40/$1,000)	4%
$1,200	$40 ($40/$1,200)	3.33%

Face value

This is the value of a bond when it was first issued; the amount printed on the 'face' or front of the bond certificate. It represents the amount owed to the investor at maturity. On any day before maturity the bond's actual market value may be higher or lower than its face value. When a bond's market price fluctuates it has an impact on its yield. If the price drops below the bond's face value, its yield goes up. If the price rises above face value, the yield goes down.

Inflation

Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of a currency falls.

The interest rate paid to bondholders is typically fixed at a rate determined on issue. Consequently, if inflation rises, the 'income' received from the bond actually becomes worth less in real terms, as goods and services become more expensive.

Inflation is one of the most influential forces on interest rates. Rising inflation often leads to rising interest rates, which would effectively cause a reduction in bond prices. Conversely, deflation would result in a lowering of interest rates, which would increase the price of bonds.

WHAT ARE THE RISKS?

Whilst bonds have a reputation for being conservative investments, they still have some element of risk in addition to interest rates and inflation expectations.

Credit risk is the potential for loss resulting from a decrease in the financial health of the issuing company. Most corporate bonds are evaluated for credit quality by companies who provide financial market intelligence, such as Standard & Poor's and Moody's Investors Service. Bonds rated BBB or higher by Standard & Poor's and Baa or higher by Moody's are widely considered 'investment grade'.

'Non-investment grade' or High Yield or Junk Bonds, those rated BB or lower by Standard & Poor's or Ba or lower by Moody's, are deemed to carry a higher 'default risk'.

Default risk Is the risk of non-payment of the bond's coupon or failure to repay the bond's face value at maturity. This scenario would usually be as a result of the issuing company getting into financial difficulties or becoming insolvent.

Returns on corporate bonds are generally higher than on Government Bonds. This is because there is a risk of companies becoming insolvent and being unable to repay the bonds or meet coupon payments, whereas governments are less likely to default on their interest payments. In short, corporate bonds pay a higher coupon to reflect the higher risk of these investments, compared with government bonds.

Inflation risk, interest-rate risk and credit risk all play a part in the pricing of bonds – the greater the risk, the higher the yield. It's also true that investors demand higher yields for longer maturities. The reason for this is that the longer the investment term, the higher the risk because given enough time, a once healthy corporation can become insolvent and suddenly lose the ability to pay its obligations. Alternatively, inflation could run rampant, seriously eroding the purchasing power of the amount an investor gets back in future years.

AND FINALLY...

The complexities of yields and credit ratings can easily detract from the key benefits associated with bonds, such as capital growth and a fixed 'income' stream. Bond returns are not highly 'correlated' with those of shares. In other words, if share prices fall, bonds will not always follow suit and will often rise. For this reason, when combined with other asset classes, they can be a useful diversification tool (read about diversification in chapter 4).

Where the running yield (an estimate of the income return) of a bond fund is greater than the redemption yield (the total return if all the bonds in a fund were held to maturity) it may signify an erosion of capital. Yields are not guaranteed and may rise and fall.

This chapter sets out the basic characteristics of bonds. It is not designed to be investment advice and should not be interpreted as such. Other factors may need to be taken into account before making an investment decision. Whilst bonds have a reputation for being conservative investments, there are elements of risk that an investor should be aware of in addition to interest rates and inflation expectations.

Note that a bond should not be confused with a 'portfolio bond' or 'collective investment bond'. These are structures (or 'wrappers') with a life assurance element, in which multiple savings and investment solutions can be held.

"Bonds still have some element of risk in addition to interest rates and inflation expectations."

CHAPTER 3

UNDERSTANDING SHARES

This chapter is designed to offer a basic understanding of shares.

WHAT ARE SHARES?

By buying a share in a company you are, for better or worse, tying the fate of your investment to the performance of that company. You are buying a part of that company and its future profits, or if the company doesn't perform well, a share of its losses. You may receive a share of the company's profit in the form of a dividend payment – you can also benefit from a future rise in the company's share price. However, the value of investments in shares (also referred to as 'equities') can go down as well as up.

Investing in shares may be more suited to someone willing to accept medium or higher risk, as they are generally regarded as riskier than some other investment vehicles such as government or corporate bonds.

Historically, the best returns for long-term investors have been from shares, although past performance should not be assumed to be a guide to future performance.

Stock markets can be divided into two separate categories – primary and secondary. Both are equally important to companies wishing to raise capital.

The primary market

This consists of shares in two types of companies.

- Those issuing shares for the first time (an Initial Public Offering or IPO).
- Those who are already public and are looking to raise new funds by offering new shares.

The secondary market

Existing company shares are traded on a daily basis. Movements in their prices indicate the relative performance of the companies over time. Most investment in shares is in the secondary market.

"Investing in shares may be more suited to someone willing to accept medium or higher risk, as they are generally regarded as riskier than some other investment vehicles."

Speak to a financial adviser
who will be able to offer further advice about investing into shares and whether they are a suitable investment for your needs.

THE SHARE PRICE

Share prices in the secondary market reflect the supply and demand for the individual share.

- If more investors wish to purchase than to sell a particular share, the share price rises.
- If more investors wish to sell than to purchase a particular share, the share price falls.

Many factors will influence the value investors place on a share. The dominant factors affecting the demand for shares can be broadly categorised as follows:

Macro factors

- Political events
- Legislative changes
- Unexpected events (terrorism/natural disasters)
- Interest rate movements
- Inflation forecasts

Micro factors

- Company's profit forecasts/warnings
- Company's dividend history/policy
- Merger and acquisition activity
- Changes in management
- Activity in competition
- Valuation of shares

As well as these 'rational' factors, more emotional factors may affect a share price. For example, the development of a 'herd mentality' with investors buying a share because of a perception that others are doing the same.

THE GOLDEN INVESTMENT RULES

Investing in shares involves risk taking. There are a number of golden investment rules to help reduce an investor's overall exposure to risk:

Spread the risk

Between different companies and different sectors – diversification is key!

25 Keep up-to-date

There are a number of sources available online for checking share prices; you can see the price changes to the minute as well as the high and low prices over defined periods.

Stay calm

The stock market often reacts in an exaggerated manner and can move sharply from day-to-day. Generally, the aim is to 'buy low and sell high'. Sounds easy, but it can be much more difficult in reality.

Reduce the losses

Should you face the scenario where a share is not performing as hoped, you may wish to consider cutting your losses. It is important to consider pre-determining when to sell shares – the lowest price where you feel you cannot afford to lose more. This strategy should also be used to determine the highest price at which shares will be sold – it's important not to be too greedy as stock markets can be volatile, meaning positive returns can quickly disappear.

"Generally, the aim is to 'buy low and sell high'. Sounds easy, but it can be much more difficult in reality."

SHARE CLASSIFICATION

Shares are classified in accordance with the nature of the issuing company. Typically shares are classified in the following way:

Sector

Sectors relate to the key operations of the company, i.e. the product it sells or the service it provides, for example, pharmaceuticals, telecommunications, and retail sectors.

Size

Defined as small, medium and large capitalisation. For example, a 'large cap' would be a large multi-national company such as Microsoft.

The characteristics of the company

Shares can be categorised in accordance with the current and future earnings or dividend characteristics of the company:

- **Growth shares** are shares in companies that have experienced sustained growth in sales and earnings, with a consensus that this is likely to continue.
- **Income shares** are shares in companies which, unlike growth shares, have dividend policies which favour paying out a large proportion of the profits to shareholders.
- **Value shares** are shares in companies which are attractively valued relative to the shares in other companies in their sector. This means the investor believes the share price is below what the actual asset is worth, even if that asset does not seem attractive at that point in time.

How they fit with the economic cycle

Shares in cyclical sectors usually rise when the economy is growing and fall when the economy is slowing down, for example building, general retailers, and leisure sectors.

Shares in non-cyclical sectors attract a constant level of demand which means they can obtain a more constant value in a recession, for example pharmaceuticals, utilities, and food retailers.

AND FINALLY...

The stock market may have the potential to deliver higher returns than other investments, such as savings in a bank or bonds. However, there is significantly more risk involved, with more knowledge required to make the right decisions.

Which shares you select depends on your attitude towards risk. Nobody can predict the stock market and therefore it is wise to choose a diversified portfolio of shares in different companies across different sectors.

A convenient way to gain exposure to stocks and shares whilst diversifying risk, is to invest in a fund holding a collection of shares.

This chapter has been designed to give a basic understanding of investing in shares. It is not designed as investment advice. The value of shares may fall as well as rise. Past performance is not a guide to the future.

CHAPTER 4

UNDERSTANDING DIVERSIFICATION

This chapter highlights the importance of spreading the risks associated with investing and how they can be reduced by creating a balanced investment portfolio.

REDUCE THE RISK: DIVERSIFY

Risk is a necessary and constant feature of investing – share prices fall, economic conditions fluctuate and companies can occasionally become insolvent. Indeed, the very returns that these assets can generate are typically there to compensate investors for the risk they take.

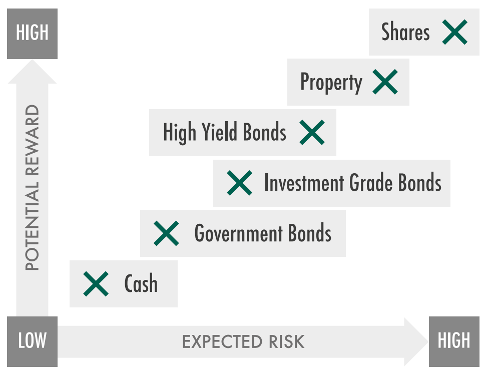
There are many different asset classes available to invest in, each possessing different risk characteristics. The risks for each asset class cannot be avoided, but when they form part of a diversified portfolio and are managed collectively, risks can be diluted.

You can spread your investment across a wide range of asset classes and sectors, and help reduce the risk that the portfolio will be overly reliant upon the performance of one single asset.

ASSET ALLOCATION

One of the best ways to spread risk is to invest across several different asset classes. The principal choice is between shares, bonds, cash, and perhaps other 'alternative investments' such as property.

The different 'risk/reward' characteristics of each asset type are illustrated in this graph.



The aim is to select asset classes that behave in different ways, the theory being that when one asset class is underperforming, the other is outperforming. For example, bonds often behave differently to shares by offering lower but more consistent returns. This helps provide a 'safety net' by reducing many of the risks associated with reliance upon one particular asset.

SECTOR EXPOSURE

Depending on what they sell, produce, or what services they provide, companies can be classified by 'sector'. For example, Wal-Mart resides in the 'Retail' sector and BP in the 'Oil and Gas' sector.

Just as it is important to spread an investment across different companies, it can also be wise to select companies from different sectors.

For many reasons, companies within different sectors can perform very differently in different market conditions. By diversifying across sectors, an investor can access companies with good growth expectations, without necessarily overexposing their whole portfolio to undue risk.

For example, commodities or technology shares are generally seen as having higher growth expectations, but are also known to be volatile and react to market conditions. Some stability can be achieved by holding companies across sectors associated with lower growth expectations, or those sectors which are less sensitive to changes in market sentiment such as pharmaceuticals or insurance.

Picking the right balance of these depends upon your own risk profile.

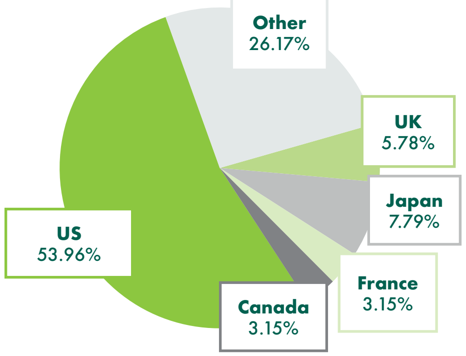
MAKE SURE YOU HAVE A GLOBAL VIEW

GEOGRAPHICAL LOCATION

You might feel better investing most of your portfolio in your home market – but is it the most sensible option? According to the MSCI All Countries World Index*, as at March 2017, the United States makes up over half the global stock markets.

*A stock market index, such as MSCI World Index, is a statistical measure that reflects the value of a basket of stocks. Stocks listed within an index bear similar characteristics, such as trading in the same stock exchange, belonging in the same industry, or being similar sized companies.

IT CAN PAY TO GO GLOBAL



Source: MSCI All Countries World Index. March 2017

PERFORMANCE OF MARKETS AROUND THE WORLD

The table below shows the best and worst performing markets and asset classes over recent years. As you can see, to be able to invest in the 'winners' and avoid the 'losers' would indeed have led to a powerful performance, but look how hard it is to spot these. The distribution of returns is very wide, for example, in 2016 the annual return percentage was between 11.23 and -2.12. Therefore, it may be wise to invest across a variety of global markets to help dilute the risk.

ANNUAL RETURNS (%)

	Asia Pacific ex Japan Equity	Europe ex UK Equity	Global Bonds	Global Property	Japan Equity	UK Equity	US Equity
2016	6.75	-0.56	0.59	2.82	2.38	-2.12	11.23
2015	-9.37	-0.65	-3.15	0.23	9.57	-4.55	0.75
2014	2.82	-6.55	0.59	14.16	-4.02	4.75	12.99
2013	3.41	27.65	-2.6	2.73	27.16	23.09	31.55
2012	22.31	21.28	4.32	28.61	8.18	17.46	15.22
2011	-15.6	-15.26	5.64	-7.12	-14.33	-4.17	1.47
2010	18.13	1.57	5.54	20.37	15.44	11.03	14.37
2009	73.22	32.57	6.93	32.65	6.25	46.15	25.55
2008	-51.93	-45.54	4.9	-48.09	-29.21	-49.39	-37.45
2007	36.45	16.66	9.48	-5.57	-4.23	7.12	4.9

GREEN = Best Performing **PURPLE** = Worst performing

Source: Financial Express (FE), March 2017. US Dollars, bid to bid.

SHARE-SPECIFIC RISK

The well-documented insolvency in 2008 of Lehman Brothers, one of the US's biggest investment banks, illustrated the danger associated with investing in seemingly safe, large, multi-national organisations.

Whilst the impact would have been catastrophic to an individual with their life savings in the company, an investor holding their shares as part of a well-diversified portfolio would have seen the effect considerably diluted.

By investing in as little as 20 different companies covering multiple sectors, the majority of share-specific risk can be reduced.

Also, to ensure your portfolio is well-diversified it can be also wise to ensure that different shares represent a stake in companies of different sizes, this way you can spread the risk associated with, for example, smaller companies.

INVESTMENT STYLE

Diversification highlights the importance of ensuring that an overall portfolio has exposure to varying types of investment styles. Some shares are held because investors believe their value is likely to grow significantly over the long term. These are known as 'growth shares'. Others are held because they are regarded as being cheaper than the inherent worth of the companies in which they represent a stake. These are known as 'value shares'. Please refer to chapter 3 - Understanding shares - for more information about shares.

It is important to have a blend of styles to ensure that the portfolio as a whole is not overly vulnerable to the risk/return characteristics of each individual share type.

AND FINALLY...

The key benefit of diversification is the reduction of an investment portfolio's overall risk. This is achieved by reducing the reliance upon one particular asset class, share, sector or geographical region, to generate returns.

The premise of diversification is a simple one; whilst one asset in an investment portfolio may be declining in price, another unrelated asset may be gaining; maintaining the balance required for a healthy portfolio.

In practice, it is difficult to create the perfect balance of assets, sectors, investment types and markets to suit a specific investment objective and risk profile. However, the innate diversification qualities of collective investment schemes, combined with the 'know-how' of a financial adviser, can present a sound, individually-tailored diversification solution.

"By investing in as little as 20 different companies covering multiple sectors, the majority of share-specific risk can be reduced."

Speak to a financial adviser
who will be able to offer further advice about investment diversification.

CHAPTER 5

UNDERSTANDING INVESTMENT FUNDS

This chapter sets out a basic understanding of investment funds.

Other factors may need to be taken into account before making an investment decision. Your financial adviser will be able to offer you advice on this.

WHAT ARE INVESTMENT FUNDS?

The majority of investors lack the time or experience to closely manage a portfolio of individual shares, bonds and/or other investment instruments. For such investors, a diversified portfolio of investment funds, together with the 'know-how' of a financial adviser, can present a sound, individually-tailored solution.

Investment funds, under the management of a fund manager, pool together money from many investors to collectively invest in a selection of shares, bonds, cash or other financial instruments. You can achieve diversification across a range of assets by simply investing into one fund.

Each investment fund has an objective outlining what it aims to achieve for its investors. This allows you to choose funds that meet your investment objectives and that are appropriate to the level of risk you are prepared to take. The objectives can be found on the fund factsheet, key information document, or prospectus.

It is the fund manager's job to create a portfolio that blends different types of shares, bonds and other financial instruments to achieve the objectives of the fund.

As with all investments of this nature, the most important thing to remember is that investment funds should be viewed as a long-term investment, meaning at least five years but preferably longer.

"A portfolio of investment funds, together with the 'know-how' of a financial adviser, can present a sound, individually-tailored solution."

Speak to a financial adviser
who will be able to offer further advice about investment funds and whether they are a suitable investment for your needs.

TYPES OF INVESTMENT FUNDS

Equity funds

These are funds investing in a portfolio of shares of different companies, and potentially across different industries.

Depending on the investment strategy of the fund, some funds may only invest in large companies and some only in medium-to-small companies. There are also funds that will only invest in particular sectors, such as health or telecommunications – offering a diversified investment into a particular industry or theme.

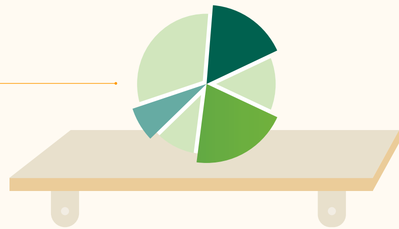
Bond funds

In general terms, bond funds invest in a portfolio of fixed-interest securities, for example, government bonds or corporate bonds (bonds issued by companies). The bonds held in the fund will typically generate an income (or coupon). The fund is able to distribute some, or all, of the income received.

Funds that invest in government bonds are generally considered to be less risky than funds investing in corporate bonds. However, rates of return, whether in terms of capital growth or income paid, are not guaranteed and can still go down as well as up.

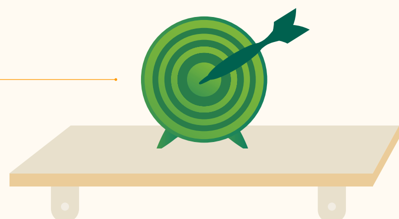
Specialist funds

Specialist funds invest in a specific sector of the economy. No matter which sector you are interested in investing in, there is likely to be a fund that invests in it. Examples of sectors include: health, telecommunications, IT and technology, property, or natural resources.

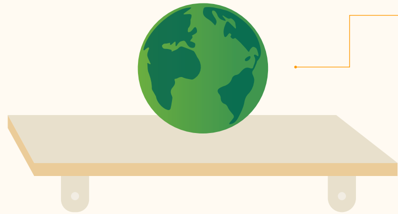


Investing in a portfolio of shares of different companies/across different industries

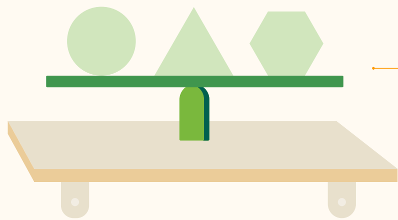
Bond funds invest in a portfolio of fixed-interest securities



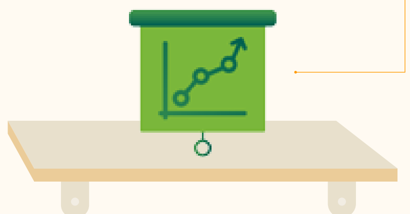
No matter which sector you are interested in investing in, there is likely to be a fund that invests in it



Global funds offer a convenient solution to achieve a geographically diverse portfolio



Balanced funds have the advantage of investing in a mixture of assets including both shares and bonds



Developing countries have the potential for very high economic growth

Global funds

A truly diverse portfolio should take advantage of global diversification opportunities. Global funds offer a convenient solution to achieve a geographically diverse portfolio. If you do not have any specific preferences of countries or regions to invest in, global funds are the easiest way of gaining exposure to global companies or markets.

Balanced funds

Balanced funds have the advantage of investing in a mixture of assets, including both shares and bonds. It would be common for a balanced fund to have the majority of the portfolio invested in a mixture of these assets, with the remainder held in other classes such as property or cash. However, this varies depending on the objectives of the fund.

It is important to be aware of the asset allocation between shares, bonds, and other assets, in order to fully understand the risks and potential rewards inherent within a particular fund.

Emerging markets funds

An emerging market fund invests in shares or bonds issued by companies or governments in developing countries. Developing countries have the potential for very high economic growth. Examples include Brazil, Russia, India, and China. This high growth potential may be due to a number of factors, such as political and structural changes in the country, for example: privatisation, liberalisation of trade, or providing better access to capital. The main risks, on the other hand, are political instability, volatile economic conditions, and generally less structured markets and regulatory regime. The financial markets in such countries can therefore fluctuate dramatically.

RISK AND RETURN

As with all investments, there is a degree of risk. Of course, investment funds can go down as well as up in value. It is important that you are comfortable with an investment fund's risk profile and susceptibility for short-term volatility.

Additionally, you should consider 'currency risk' – a risk associated with funds investing in foreign assets. For example, even though an investment might have grown by 50%, if the local currency were to halve in value compared with your domestic currency, you would be no better off if you sold the investment.

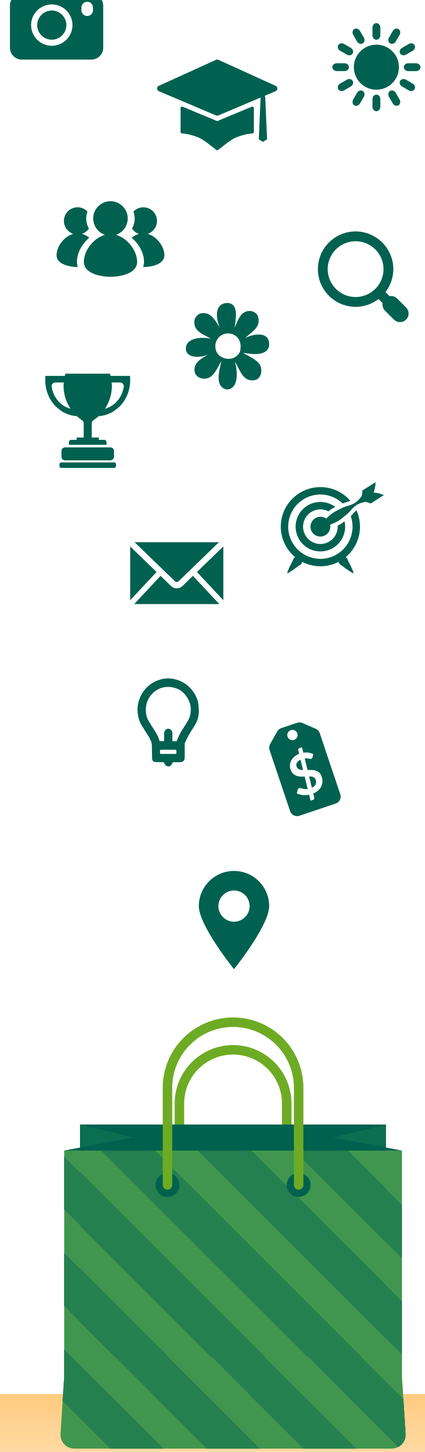
Performance figures are available from the fund manager, or alternatively are often made available in the financial press or more widely on the internet. The figures will typically show cumulative investment performance over a range of different time periods.

The performance or return from a fund is often compared against a benchmark index or sector average performance. A benchmark index is a target against which investment performance can be measured. The benchmark index will be based on the values of a group of securities or other assets, such as property. It is used to determine the relative rate of increase/decrease. Sector averages denote the average performance of all funds within that particular sector.

The ranking of a fund within a particular sector is an indication of how well a fund is performing in comparison to funds with similar investment objectives. However, you should note that past performance is not a guide to the future.

Investing in funds is generally considered to be a long-term investment, and it is therefore more important to look for funds and fund managers that consistently outperform the sector average over a sustained period of time. Remember, a fund may outperform its sector but if the sector average is negative, the actual return on the fund could also be negative.

"The innate diversification qualities of investment funds, combined with the 'know-how' of a financial adviser, can present a sound, individually-tailored investment solution."



CHARGES

Investors in a fund typically pay an annual fund management fee of between 0.5% and 3% a year. On top of this, they will also pay the fund's 'additional expenses' such as costs relating to buying and selling underlying assets.

All these charges are combined to produce what is termed the Total Expense Ratio (TER) or Ongoing Charges Figure (OCF). These charges are deducted from the fund price on a daily basis rather than as an annual charge.

AND FINALLY...

There is no doubting that investment funds offer the potential for growth and a convenient way to diversify risk. However, with such a wide choice available, all with varying performance, objectives and risk profiles, it is important to choose wisely.

To become adept at analysing investment funds and various fund manager strategies, you must have a broad understanding of how investment works.

CHAPTER 6

UNDERSTANDING MULTI-ASSET FUNDS

This chapter is designed to give a basic understanding of multi-asset (multi-manager) funds

Speak to a financial adviser
if you require more information about multi-asset funds.

WHAT ARE MULTI-ASSET FUNDS?

Multi-asset funds provide investors with access to multiple funds and asset classes through a single fund, managed and monitored by dedicated experts on the investor's behalf. This type of fund can increase the potential for diversification and help reduce the overall level of risk.

The role of the manager of a multi-asset fund is to have an in-depth knowledge of funds and fund managers, in the same way a fund manager should have an extensive knowledge of shares. Multi-asset funds are also sometimes called multi-manager funds.

The managers use their expertise to select the appropriate funds in each asset class and region with the aim of further reducing risk, resulting in a focused portfolio with plenty of potential to outperform. You can refer to chapter five 'understanding investment funds' for details about performance.

Some of the various methods used to achieve this are more sophisticated than others, but in general terms, the tasks are as follows:-

1. **Asset allocation** – decide the correct blend of investments across regions and asset types.
2. **Fund manager selection** – select appropriate experts in their respective fields.
3. **Monitor and manage the managers** – the manager will keep track of all fund changes (for example, investment style changes, fund group mergers, and fund manager changes).

"This type of fund can increase the potential for diversification and help reduce the overall level of risk."

TYPES OF MULTI-ASSET FUNDS

There are many types of multi-asset and multi-manager funds available in the markets and choosing the right one for your needs is vital. Sometimes these titles are used interchangeably which can be confusing, but below we have tried to explain the main differences.

Multi-asset funds

The main focus for multi-asset funds is to provide diversification by investing in different asset classes. Multi-asset funds can use a mix of strategies instead of being restricted to investing in other collective investment schemes as 'fund of funds' do (see page 31). This means they are not restricted to investing in other funds but can choose to blend the usual multi-manager approach with investing in direct assets such as shares, bonds, or derivatives.

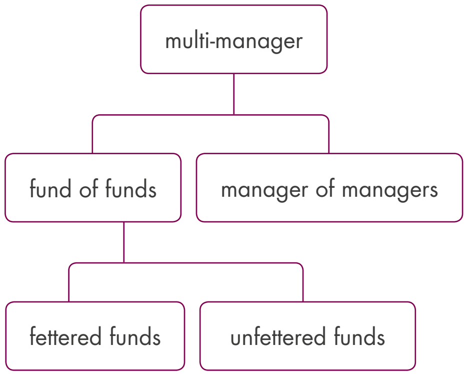
In general terms, the core advantages of all types of multi-asset funds are as follows:

- **Portfolio diversification** – effective diversification can reduce risks associated with investing (see chapter 4 - Understanding Diversification).
- **Simplicity** – the opportunity to achieve a diversified portfolio through only one fund.
- **Tax efficiency** – they are actively managed, meaning the fund manager will buy and sell funds to achieve the overall objective. If funds were bought and sold in this way by a private investor, any gains made could, in some countries, be liable for tax.
- **Minimises paperwork** – investors receive the paperwork for the multi-asset fund, not for all the underlying funds or assets.
- **Suitability** – many multi-asset funds are 'risk targeted' or 'risk rated', meaning you can help ensure your portfolio meets your attitude to risk at all stages of your investment journey.

The additional benefits of the multi-asset approach are added diversification and potential cost benefits provided by the ability to invest directly in shares, as well as being able to react to certain market events in a more timely manner.

Multi-manager funds

The main focus for multi-manager funds is to provide diversification by investing with different fund managers. There are two main types of multi-manager funds in the market: 'fund of funds' and 'manager of managers' funds.



"Multi-asset funds can use a mix of strategies instead of being restricted to investing in other collective investment schemes."

Fund of funds

A 'fund of funds' aims to create a blend of the most appropriate investment funds to meet a defined objective.

There are two different types of fund of funds:

- **Fettered funds** (also known as 'in-house') - these only invest in funds managed by the same fund group. Therefore a fettered fund of funds provided by Old Mutual Global Investors, for example, would invest exclusively in funds provided by Old Mutual Global Investors.
- **Unfettered funds** – these have the freedom to invest in funds provided by other fund groups.

Some groups take this even further and will set an in-house rule that excludes them from investing in any of their own company's funds, ensuring all investments are external.

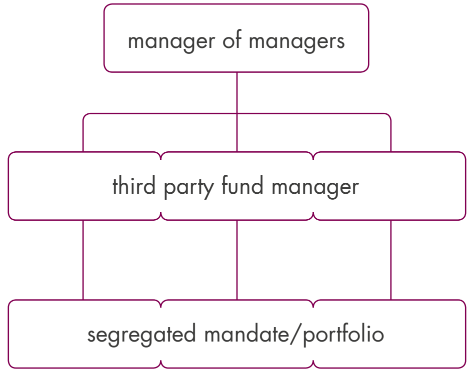
A fund of funds can provide a number of advantages. Individual funds within the fund of funds (known as the 'underlying funds') can be bought and sold almost immediately. However, the manager cannot specify how these underlying funds are managed. This can lead to asset overlap between funds if the different underlying managers pursue similar investment strategies. This leads us to one of the advantages of the second type of multi-asset fund – 'manager of managers' funds.

Manager of managers' funds

In this case, rather than investing directly into specific funds, the 'manager of managers' appoints individual fund managers to buy assets directly.

A separate instruction or 'segregated mandate' is issued to each of the appointed managers, outlining the parameters by which the money is to be managed, as shown here.

"The fund is actively managed by the manager of managers with the aim of achieving optimum performance."



For example, the manager of managers may have specific instructions as to the amount of risk that a proportion of the fund is to be exposed to, or on the general investment style.

If an appointed fund manager is not performing satisfactorily against the mandate, they can be replaced. In this way, the fund is actively managed by the manager of managers with the aim of achieving optimum performance within the overall objective

Manager of managers' funds often have a broad asset allocation – though they have different risk profiles, such as 'cautious', 'balanced' and 'aggressive', which may work well as core funds within a diversified portfolio.

WHAT'S THE DIFFERENCE BETWEEN RISK-RATED AND RISK-TARGETED FUNDS?

Risk-rated funds

Risk-rated funds are funds that are given a rating by an agency in relation to the level of overall risk they represent at any time. The rating is based on the information available at the time of the assessment and it could change at a subsequent review. The managers of such funds have no obligation to keep to a given risk rating.

Risk-targeted funds

Risk-targeted funds are managed in such a way as to control the amount of risk that investors are exposed to. Each fund has a risk target which acts as a guide as to how much risk you may be exposed to by investing in that fund.

WHY INVEST IN MULTI-ASSET FUNDS?

Choosing the right funds and building a diversified portfolio can be difficult. The options available to an investor are almost limitless. In the UK alone, there are over 2,000 registered funds to choose from, and there are thousands of offshore funds, registered in places such as Luxembourg and Ireland, available to investors throughout the world.

New funds are constantly being launched, making it difficult to keep track of which funds and fund managers are the best at any one time.

Generally speaking, it is unlikely that a single fund manager will be capable of delivering consistent outperformance.

Making the right choice for a portfolio and then refining it and reshaping it over the years takes time, information and skill.

Fund managers need to be monitored to ensure they remain at the top of their game – and replaced when they are not.

Few private investors have the resources or expertise to do this properly. That's where multi-asset funds can play a valuable role.

"Generally speaking, it is unlikely that a single fund manager will be capable of delivering consistent outperformance."

AND FINALLY...

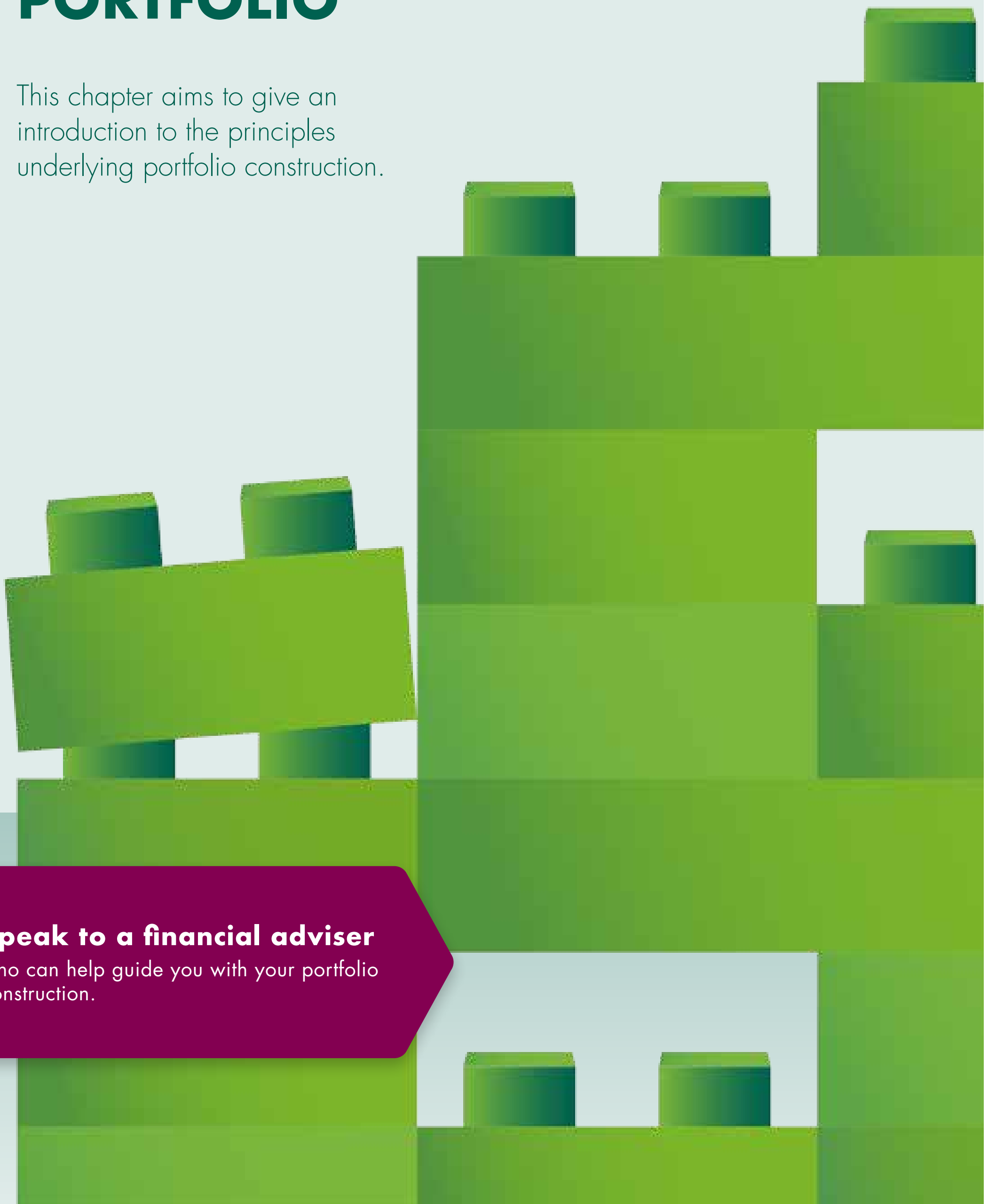
All multi-asset funds offer a convenient way to access a wide range of fund managers and asset classes. Spreading investments across a wide range of managers and assets decreases the likelihood of a fall in value across the whole portfolio.

At the same time, multi-asset funds that are designed to target different risk levels make it simple to adapt a portfolio to suit an investor's changing circumstances. For example, investors with no need to access their savings any time soon are likely to be able to bear more risk than those who are nearing the time when they do need to access their money.

CHAPTER 7

BUILDING AN INVESTMENT PORTFOLIO

This chapter aims to give an introduction to the principles underlying portfolio construction.



Speak to a financial adviser
who can help guide you with your portfolio construction.

To the novice investor, the world of investments can seem a daunting place. Consulting a financial adviser prior to making any investment decisions is always a wise move.

Even with advice, it is important to have a broad understanding of how investment decisions are made before creating an investment portfolio. There are many factors that contribute to how an investment portfolio is constructed. This chapter will help you understand the significance of these factors.

THINGS TO CONSIDER

Each investor is different. You might have already retired and need to ensure that your investments are secure. On the other hand, you might be prepared to accept a higher exposure to risk in return for potentially larger returns.

Here are some key considerations:

Age and investment duration

Age may dictate investment duration. For example, a young professional investing in a pension may be more likely to take higher levels of risk, due to the length of time available to recoup any short-term losses. Alternatively, an older couple may be far more cautious with any savings, as they will be keen to preserve capital to support their retirement.

Investment objective

You may be looking for the value of your investment to increase in value over time, perhaps to purchase a second home or finance a child's education. Or you could be looking for investments to provide an income for retirement. An investment objective needs to be determined before deciding the asset allocation of a portfolio.

Existing financial commitments

It is important that a portfolio reflects any significant financial commitments, such as a mortgage to repay or a family to support. If you are reliant upon your investments to meet these commitments then a high-risk approach is unlikely to be entirely appropriate.

Attitude to losses

Clearly defining how much of a loss you are prepared to accept as a percentage of your portfolio is vital. A financial adviser will ascertain your risk profile by assessing your reaction to short-term losses upon being given a hypothetical investment scenario.

If a loss of less than 5% is acceptable, you are likely to be a risk-averse investor. But if you are prepared in the short term to lose more (for example 20-25%) in exchange for a higher chance of gaining additional profit, you might be considered a higher-risk investor.

"It is important to have a broad understanding of how investment decisions are made before creating an investment portfolio."

DEFINING A RISK PROFILE

There are various tools available that help financial advisers to assess a client's risk appetite. Filling in a 'risk questionnaire' with your adviser is one way of discussing the considerations mentioned on the previous page and will enable an adviser to consider which risk profile best suits you.

A low-risk profile

This means the investor places greater importance on preserving the capital value of their investment over increasing its value.

The low-risk investor may choose to invest in the lower end of the risk spectrum, with a long-term goal.

A medium-risk profile

If the investor can tolerate some fluctuations and volatility, but tends to stay away from investments that may dramatically or frequently change in value, they might be considered to accept medium levels of risk.

The medium-risk investor may have a long-term goal for the investment.

A high-risk profile

If the investor is willing to accept a greater possibility of a decline in the value of their investment in return for potentially higher returns, they are more than likely to be considered a high-risk investor.

They will be prepared for the possibility of losing a large proportion or possibly all of the money invested.

GET GOING!

Once you are comfortable with all the major considerations you need to take into account when building a portfolio, and your financial adviser has helped you to identify which risk profile best suits you, it is time to decide where to invest.

Different asset classes have different risk/return characteristics, as illustrated in the diagram on page 37.

A financial adviser will take into consideration all of the information gathered, including investment objectives and risk profile, to ascertain the most appropriate blend of asset classes.

Generally speaking, risk averse or low-risk investors tend to construct portfolios with a bias for cash and bonds, and less exposure to shares. Despite a low potential for significant capital growth, a portfolio with this structure is likely to be far less volatile than one with a high weighting in shares.

Medium-risk portfolios are likely to have a more balanced weighting between bonds and shares, with perhaps some exposure to property and cash also. This portfolio has the potential for capital growth from the share component and to derive an income stream from the bond segment.

A high-risk portfolio often has a greater proportion of shares, with less exposure to bonds and cash. Whilst the value of the investment may rise significantly over the long term, the volatile nature of shares means that there is a risk of dramatic variations in value both up and down.

ASSET ALLOCATION:

This is the process of dividing investments among different kinds of assets, such as shares, bonds, property and cash, to optimise the balance of risk and reward, based on an individual's specific situation and goals.

REVIEWING YOUR INVESTMENT PORTFOLIO

Having built a portfolio, it is important that both you and your adviser continually review how it is performing.

The financial markets are constantly changing, providing new possibilities for growth and opportunities to prosper.

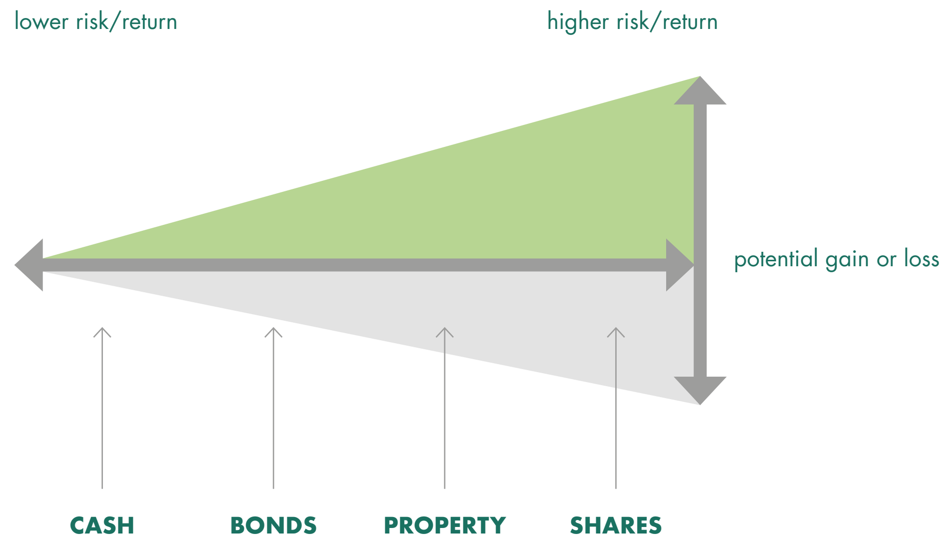
Alternatively when markets decline, your portfolio will require reviewing and perhaps the asset allocations need to be adapted to reflect the new market conditions.

One important rule of thumb is to never get emotionally tied to any specific investment – the progress of a portfolio should always be objectively re-analysed and rebalanced accordingly.

AND FINALLY...

There is no doubting that it is possible to build a comprehensive portfolio of investments to suit the risk profile and goals of each individual investor.

However, building a truly diverse and successful portfolio is a complex process. Even with the 'know-how' of a financial adviser, it is useful to gain a general understanding of how portfolios can be tailored to suit specific needs and goals. Only then are you truly in control of your investments.



CHAPTER 8

AN INTRODUCTION TO INVESTMENT RISKS

This chapter provides a high level introduction to investment risks and investors' risk profiles.

Speak to a financial adviser
about a risk assessment to find out what level of risk you're prepared to take on.

HOW MUCH RISK CAN YOU HANDLE?

There are many different reasons for investing and no two people will have exactly the same objectives. For some it might be to pay off a mortgage, for others a way to build a retirement fund, or safeguard their long-term savings.

The level of risk that you, as an investor, may be willing to accept is an important consideration that needs to be established before making an investment. As well as your willingness (or not) to accept risk, you should also consider how much risk you need to take to reach your investment goals, and also how much risk you can handle without changing your life goals. The relationship between your investment objective, risk tolerance, and capacity for loss provides your overall attitude towards risk. This is often known as your risk profile. Your financial adviser can help you to ascertain your risk profile by means of a series of questions.

Typically, your risk profile will be identified by a number. The lower the number, the lower the amount of risk you are willing to accept.

Investment risk falls into the following broad categories; low risk, medium risk and high risk. Please see chapter 7, Building an investment portfolio, for further details on risk categories.

Different kinds of investment carry different levels of risk:

Cash

Cash or deposit accounts are often regarded as low risk, but they are not risk-free, as the crisis of the 2007 'credit-crunch' showed. Inflation too can reduce the purchasing power of cash savings if it exceeds the rate of interest earned. This means that the real value of cash-based investments could decrease over time. There is also an 'opportunity risk' of not being invested into other types of investments that could potentially deliver better returns.

Bonds

Many low-risk investors choose to invest in bonds or fixed-interest securities. When investing in a bond, an investor is essentially lending money to the issuer of a bond, usually a government or a company. In return for the loan, the issuer pays a rate of interest, usually at regular periods. The loan is usually repaid by the issuer at the maturity date. The benefit to the investor of this type of investment is that they expect to receive a regular income. However, there is a risk that the issuer may fail to return part or all of the original investment, or that the redemption or maturity value may be less than the original purchase cost, or that the issuer is not able to continue paying the regular income.

Shares

Historically, the best returns for a long-term investor have been from investment in shares (also referred to as 'equities'). However, past performance is not a guide to the future and investing in individual shares does typically mean taking on a greater level of risk.

The price of a company's shares trading on a stock market is a reflection of their value as influenced by the demand (or not) by investors. When you invest in a company you are essentially buying a part of that company and its future profits. On the other hand, you also suffer any losses. The risks can be high, especially if you own shares in only a handful of companies. If one company is not performing well, this can have a significant effect on the overall value of your investment portfolio.

"Investing is not about gambling or speculation. It is about taking measured financial risks to achieve specific goals."

The exposure to the potential risk of loss in holding shares can be reduced by spreading the risk amongst several company shares in different sectors. This can be taken a step further by investing across a wide range of different 'asset classes', such as shares, bonds, and cash. This provides diversification across an investment portfolio, potentially reducing its overall vulnerability.

Investing in the stock market may be more suitable if you are willing to accept medium or high-risk investments. An adviser will be able to determine how suitable they are for you.

Investment funds

A way of investing in all these asset classes could be to invest in an investment fund. An investment fund offers a potentially less risky solution than holding a small number of shares directly. Under the supervision of a fund manager, an investment fund pools together money from many investors. This combined pool of money is invested by the fund manager across a number of assets with the aim of reducing the risk of the overall portfolio. The concept is to enable investors to have a diversified portfolio with a stake in a wide range of assets.

Each fund has an objective which describes what it aims to accomplish for its investors and how it plans to achieve it. Some fund managers will aim to achieve high returns by investing in riskier shares, which offer potentially higher returns but could also result in higher losses. Others are more defensive, seeking reasonable gains without the threat of big losses. However, no matter where they invest, the value of investment funds may go down as well as up.

The choice of available funds is enormous. There are funds that invest in different countries, regions and industries – as well as a mixture of bonds, shares or other financial investments. A financial adviser will provide an investor with the necessary guidance when selecting funds for investment.

CASH

Cash or deposit accounts are often regarded as low risk but are not risk-free.

BONDS

The benefit to the investor of this type of investment is that they expect to receive a regular income.

SHARES

The price of a company's shares trading on a stock market is a reflection of their value as influenced by the demand by investors.

INVESTMENT FUNDS

A way of investing in all these asset classes could be to invest in an investment fund.

ACHIEVING A DIVERSIFIED PORTFOLIO

Diversification isn't just about investing in different companies. Other factors play a part.

Think, for example, about a portfolio holding shares in an ice cream company. If you buy shares in another ice cream company, your portfolio is less reliant on the performance of just one such company. However, it is still dependent upon a single factor: the demand for ice cream. If this demand drops, your portfolio will suffer.

By adding shares in another sector, for example a sun lotion company, you will have a more diverse portfolio and reduce the risk of being in one market sector. However, this would still mean over-exposure to a single risk: a rainy summer. To help solve this problem, an umbrella manufacturer could be added to the portfolio – an asset that should appreciate during a rainy summer and go some way towards offsetting the poor performance of the ice cream and sun lotion companies.

AND FINALLY...

Whatever the type of investment you are considering, it is important that it matches the level of risk you are comfortable with.

This is why Old Mutual International considers it essential that investors use the expertise of a financial adviser, who will be able to help you assess risk profiles and recommend suitable investments for you.

CHAPTER 9

UNDERSTANDING DISCRETIONARY INVESTMENT MANAGEMENT

This chapter is designed to offer a basic understanding of discretionary investment management and its benefits.

When you use the services of a discretionary investment manager, you are giving authority to a professional investment manager to manage or advise upon your portfolio of investments. The discretionary investment manager can act on a discretionary or advisory basis. The investment manager can carry out transactions (such as buying, selling, and switching investments) in line with the investment objectives and parameters that you've agreed with them.

The term 'discretionary' refers to the fact that investment decisions are made at the investment manager's discretion, and the investment manager manages the portfolio on this basis, reporting to you on a regular basis in terms of transactions undertaken along with investment performance achieved.

The term 'advisory' in the context of a discretionary manager appointment, means that the investment manager manages the portfolio on your behalf and provides ongoing recommendations to buy or sell investments, but refers to you for a decision before acting on them.

HOW DOES IT WORK?

An investment manager takes the time to understand your personal requirements, including your attitude to investment risk and objectives, and constructs a suitable portfolio in line with your needs.

You will have a direct relationship with this investment manager and their team throughout the lifetime of your investment. Your investment manager is accountable for monitoring the investment performance and the ongoing suitability of the investment portfolio they manage on your behalf.

Discretionary investment management is viewed as a traditional way of managing investments, generally with a dedicated individual investment manager or committee responsible for investment decisions. To create the most suitable diversified portfolio to manage risk and optimise growth or income opportunities for you, they will invest across a range of asset classes such as:

- Equities
- Fixed interest (government and corporate bonds)
- Property
- Alternative investments
- Collective investment funds
- Cash/cash equivalents (such as fixed-term deposits)

In addition to equities, bonds and a mixture of collective investment funds, discretionary investment managers may use alternative investments such as commodities (e.g. gold and silver), structured products, or hedge funds. These investments can offer significant diversification to a wider portfolio but are often difficult for retail clients to access.

Discretionary investment managers frequently offer detailed information on what the underlying investments are. For example, there might be 20 different shares, and 10 different bonds in the investment portfolio, and the regular investment reports provided by the investment manager will provide information about the investment performance of each individual holding, as well as the portfolio as a whole.

DIM, DAM, DFM – WHAT IS THE DIFFERENCE?

- DIM – discretionary investment management
- DAM – discretionary asset management
- DFM - discretionary fund management

The terms discretionary investment management, discretionary asset management, and discretionary fund management are often used interchangeably and are all forms of discretionary service. Sometimes, the term 'discretionary fund manager' is used for an investment manager who only deals in investment funds, whereas a discretionary asset manager or discretionary investment manager may manage equities and bonds, in addition to funds.

WHY WOULD I WANT A DISCRETIONARY SERVICE?

People choose discretionary investment management for a number of reasons. For example, because:

- They are not achieving their desired outcomes from their existing investments and investment approach
- There is no suitable ready-made investment solution available for their needs
- They don't have enough time to manage their own investments
- They're not sure where to start to look for the right investment.

One of the main reasons for using a discretionary investment manager is the personal service they often provide. As a client, you can be as involved as you wish in the management of your investments. You may choose to be consulted on all investment decisions or you can choose to let the

"One of the main reasons for using a discretionary investment manager is the personal service they often provide."

investment manager make all the decisions and have very little contact with them.

You may want to have face-to-face meetings with the investment manager on a regular basis, or simply have the occasional telephone conversation to keep up-to-date. Just like building the investment portfolio, the way that the discretionary service is delivered can be tailored to suit you.

THE BENEFITS OF USING A DISCRETIONARY INVESTMENT MANAGER

Discretionary investment management offers many benefits to clients.

- It removes the burden of making investment decisions.
- It removes the burden of the day-to-day management of your investment portfolio.
- It helps to ensure your portfolio is aligned to your long term investment goals at all times.
- It may provide access to investment opportunities and themes which might otherwise be unavailable to retail customers.

USING THE SERVICES OF A DISCRETIONARY INVESTMENT MANAGER

CHAPTER 10

UNDERSTANDING INVESTMENT OPPORTUNITIES

with offshore insurance companies

This chapter introduces the types of investments offered by offshore insurance companies.

Speak to a financial adviser
to find out more about investing with offshore insurance companies.

WHAT IS AN OFFSHORE INSURANCE COMPANY?

These are companies that are based outside of the country from which they accept business. Typically, these companies are based in an international financial centre, such as the Isle of Man, and are registered and regulated there.

The Isle of Man, Ireland and Luxembourg are some of the best known offshore centres for financial services companies. Other centres include Gibraltar, Guernsey and Jersey.

Today, these countries offer a well-regulated and reliable framework to help ensure investors' interests are protected. For example, the Isle of Man has regulations in place which protect investors with policies issued by Isle of Man authorised insurers. The regulations state that if an authorised insurer is not able to meet its liabilities, then policyholders, located anywhere in the world, are protected by a compensation scheme which offers policyholders up to 90% of the value of their policies back, less any outstanding charges, and with no upper monetary limit.

The nature of the relevant regulations differs between offshore locations and it is important to fully understand the details before investing.

WHAT DO THESE COMPANIES OFFER?

Offshore insurance companies offer investment through their ability to provide life assurance products that invest in one or more underlying assets. These assets can vary, from investment funds to stock and shares, depending on the product and company. Whilst an element of life assurance is likely, this protection element is sometimes of minor consideration compared with the main investment focus of the product.

"Offshore insurance companies offer investment opportunities through their ability to provide life assurance products that invest in one or more underlying assets."

This arrangement is sometimes referred to as a life assurance 'wrapper' or 'bond'.

Offshore insurance companies typically offer a range of products, including single premium whole of life policies, often referred to as 'portfolio bonds'. These portfolio bonds can provide access to almost all investment funds in the market. Some portfolio bonds allow you to invest in stocks and shares, government and corporate bonds, and other investment instruments, with the convenience of all assets being held in one portfolio, and giving easy access to capital.

As well as portfolio bonds, insurance companies may also offer products that can receive regular investments or a combination of regular investments and one-off cash sums.

WHY INVEST OFFSHORE?

Insurance-based products offer the following advantages:

1

Investment freedom

Investments can be spread across a wide range of different funds and asset types. They therefore offer you the ability to hold many of the assets described in the other chapters.

2

Convenience

The insurance company takes care of the effort involved in investing in a diversified investment portfolio and manages all paperwork involved in buying, holding and selling investments. It is also possible to switch investments as often as required, all within a single product.

3

Consolidated valuations

A single product value is provided, which consolidates the value of all the underlying holdings. These regular valuations for the wrapper show the opening and closing values, a list of the current holdings, and a note of all transactions during the reporting period. They will also reflect any additional monies paid into or withdrawn from the wrapper.

4

Lower costs

You can benefit from the insurer's purchasing powers. Due to the volume of business involved, insurers can often secure better terms from investment fund providers than a private investor is able to by investing directly in a fund.

5

Tax benefits

Perhaps the most significant advantage is the fact that the investment can usually grow virtually free of tax. This can result in potentially greater overall returns. The tax implications when you withdraw money from the wrapper will vary between countries, and it is important to be fully aware of the relevant laws in the jurisdiction in which you are resident for tax purposes. But, essentially, these products allow you to decide when and how to take proceeds from your investment. This means that you can decide when to pay tax and, if your circumstances change, at what rate.

6

Transfer and consolidate existing assets

Some single premium bonds allow you to transfer in your existing fund holdings and/or assets. This enables all investments to be held within one product wrapper – which can simplify administration and cut costs.

"As well as portfolio bonds, insurance companies may also offer products that can receive regular investments or a combination of regular investments and one-off cash sums."

AND FINALLY...

Offshore investments are no longer restricted to the very wealthy and today are offered by major companies operating from politically and financially stable and reliable locations around the world. Given the options available, it is important for you to pick the right offshore investment.

Speak to a financial adviser
who will be able to recommend investments that are suitable for your individual needs and that best fit your specific risk profile.

www.oldmutualinternational.com
Calls may be monitored and recorded for training purposes and to avoid misunderstandings.

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