

RISK & REWARD: AN EXPLANATION



THE THOUGHTFUL INVESTOR



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THE RELATIONSHIP BETWEEN RISK & REWARD

Whether it's investing, driving or just walking down the street, we all regularly expose ourselves to risk.

Our personality and lifestyle play a big part in how much risk we're willing and able to take on. If you invest in shares, making your own decisions about which ones to buy and sell, but have trouble sleeping at night as a result, then you're probably taking on too much risk. When it comes to investing money, risk can be defined in a variety of ways but one simple way to think about it is as the chance that the actual outcome an investment produces for you could turn out to be different from the one you expected at the time when you invested your money. This includes the possibility of losing some or all of the money you invest. Those who work hard for every penny they earn and have little surplus income to invest after covering their living costs tend to be, by necessity, more risk averse. That's because the impact of losing what little they have can make a big difference to their financial well-being. At the other end of the spectrum, so-called 'day traders' feel that if they aren't making dozens of trades a day, then they must be missing out on potential rewards. These people are risk lovers and in theory, willingly accept the possibility of losing a substantial sum in order to have the chance of making a hoped-for large gain.

Good investment returns cannot be made without taking on at least some risk. That said, effective risk management can certainly improve the odds for investors, so that they still have the opportunity to make a good return but without risking significant or complete loss if everything doesn't go to plan. However, risk management is not a process designed to eliminate risk altogether. Instead, the goal for most investors in managing or controlling risk is to ensure that enough reward is generated relative to the risk taken or, conversely, that the amount of risk taken on is minimised whilst generating their target rate of return. It's therefore important to identify potential risks, understand and evaluate the sources of these risks and then to make a conscious decision which risks to accept willingly and which risks to minimise or eliminate altogether. An intelligent investor will be alert to the error of taking on risk unconsciously or unintentionally – always seeking to understand risk and make sure that it's suitably compensated for in terms of likely returns.

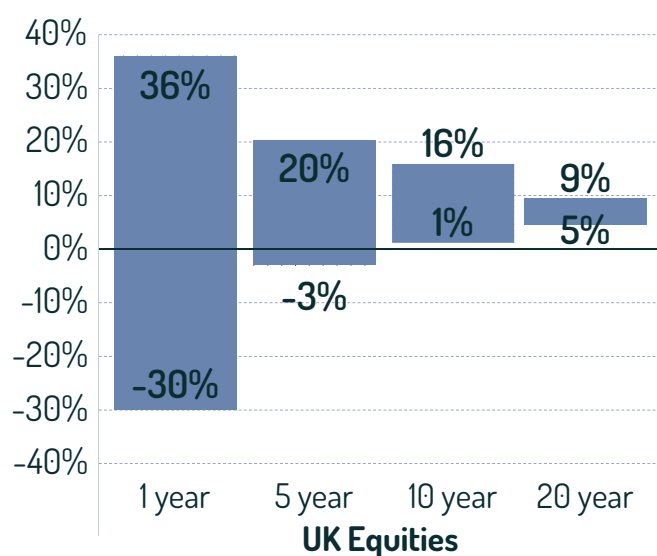
So, the investment challenge is to generate positive, acceptable returns whilst also minimising risk.



A REPRESENTATION OF RISK AND RETURN

As we've heard, at the heart of every investment decision is a basic 'trade off' between risk and possible reward or return. Broadly speaking, the greater the risk attached to an investment, the greater the potential reward but the greater the possibility also of not achieving your objective. Economic, political and business cycles can cause significant changes in the value of investments – both up and down. As a result, it's generally accepted that investment in stock market-linked investments should only be undertaken on the basis that you expect to remain invested for at least five years – ideally longer if possible. The following diagram illustrates why...

TIME ENSURES THAT THE OUTCOME IS MORE LIKELY TO BE POSITIVE



Source: Castlefield. UK equity market total return (31.12.1989 - 31.12.2023)

Past performance is not a reliable indicator of future returns. Your investment may go up or down. With investments your capital is at risk.

The above diagram shows the maximum and minimum possible annualised (per annum) returns an investor could have achieved from a 100% investment in the UK stockmarket over all possible one, five, 10 and 20-year investment holding periods. The data covers a 34-year period to 31

December 2023 and for the sake of illustration assumes that investors could have accessed an investment fund giving the same return, after costs, as the main stockmarket index during each year. This is for illustration purposes only, but the conclusions are valid.

Looking at each individual 12-month period making up the entire period, the maximum gain an investor could have made in the best year would have been +36%. However, the worst 12 month period over this timeframe would have been -30%. That's why it's not considered prudent to invest money in the stockmarket with the firm intention of withdrawing it only a matter of months later. Over a one-year period you might be lucky and make a large gain but equally you might be unlucky and make a large loss instead. If you don't have the ability to sit out such periods of short-term poor investment returns, by remaining invested and waiting for a recovery in values, you shouldn't invest in the stockmarket at all.

However, history has shown that if you can afford to look at a period of investment of at least five years, then the return over any five-year period is most likely to be positive; with a much-reduced chance of being negative. For periods of 10 years and more, historically the returns have always been positive.

Time is the investor's friend and effectively neutralises the risk of possible investment loss. This is true whether considering our own individual financial circumstances or acting in the role of a charity trustee, where with many charities able to take a very long-term view, they have a distinct advantage over other types of investor and should look to maximise that advantage. Although not enjoying the same advantage as charities have, for individual investors the benefit of time can still make a material difference to the success of your investment objectives and the possibilities for your assets at each stage of life.

SAVING & INVESTING

It's easy to confuse 'saving' and 'investing'. Many people use the terms interchangeably, as if they're synonymous. It's important to know that saving and investing are related, but not identical.

WHAT'S THE DIFFERENCE?

SAVING

At its most basic level, saving is the act of putting money away in a safe place, with the intention of accessing and spending the money in the future. The capital value remains static, but protected, if a solid deposit-taking institution is used. The best one can hope for is some modest interest, added to the original capital sum, or perhaps withdrawn as income during the life of the deposit.

But how safe are your savings if you leave your money in an account for a long time and the interest this money earns does not keep up with inflation? What if you save a pound today, when it will buy you a loaf of bread, but then years later, when you withdraw that money, that same pound can only buy half a loaf? In seeking to protect the face value of your money you have actually risked losing a considerable portion of its 'real' or relative value, as its so-called 'purchasing power' has been eroded by price inflation over time.

INVESTING

In contrast, investing involves committing money to some form of investment vehicle in the hope of making a financial capital gain – typically by way of regular income, capital appreciation or a combination of the two. Investing is different from saving because it almost always involves a greater level of risk and there is no guarantee that you will get your money back in full or precisely when you need it.

Investing involves putting your money into investments – such as company shares, fixed interest securities (or bonds), collective investment funds (like unit trusts and so-called open-ended investment companies – OEICs), exchange-traded funds (ETFs), the shares of listed investment trusts and commercial property – with the hope that your money will provide a growing income or provide a capital return, (or both) but also in the knowledge that your money could shrink or, in the extreme, disappear completely. This risk is assumed by investors in the expectation that, over the long term, they will not lose money but instead make more money than they would if they simply stuck to more predictable savings accounts.

This is why many people use saving **and** investing, which allows them to invest at least some of their money over long periods of time and try to ensure inflation does not eat into their purchasing power.

DIVERSIFICATION



WHAT IS DIVERSIFICATION AND WHY IS IT IMPORTANT?

If, in order to have the chance of accessing better returns than a typical savings account can hope to provide, you need to embrace the world of investment and with that comes risk, how can you steer a sensible course through these two concepts?

Extra returns on the one hand,

but

Extra risk to access them
on the other.

Diversification is a technique that reduces risk by allocating money among various types of assets and investments – providing a mix of investment types, with exposure to different sectors of the global economy. The resulting diversified collection of investments is often called a ‘portfolio’. This technique aims to invest in different types of investment, each of which is expected to react differently to the same economic or political event. Different assets often do not react in the same way to the same positive or adverse real world events. This means that a combination of asset classes (types of investment) will reduce your portfolio’s sensitivity to economic and investment market swings. Generally, if your portfolio is diversified across assets, unpleasant movements in one area may be offset by positive results in another.

Castlefield takes into account the need for diversification when recommending a suitable mix of assets for each of our clients. This process is often called ‘asset allocation’. As a consequence, your investment portfolio is likely to contain a mixture of types of asset (or ‘asset classes’) – some more high-

risk than others. This is likely always to be the case regardless of your personal appetite for risk; although you may be invested in a smaller proportion of higher-risk assets if you have a lower appetite for risk. That said, it will often still be necessary to have at least some exposure to what are known as complex investment products. The glossary towards the end of this brochure explains what is meant by the term complex.

A key point to grasp at the outset is that an investment which might appear to be risky (perhaps fluctuating wildly in value day-to-day) if held in isolation, may well have a vital part to play in reducing risk as part of a diversified portfolio of many different types of asset – each with its own individual risk characteristics. For example, if two different investments individually fluctuate wildly in value, but in opposite directions (one rising in value when the other falls and vice versa) then it’s easy to see that combining equal parts of these two investments into a portfolio of two investments will result in this portfolio as a whole delivering little if any day-to-day volatility in price and therefore it will have minimal risk.

DIFFERENT TYPES OF RISK

Whilst measuring the tendency of the value of an investment or portfolio to rise or fall over a given time period (also called its 'volatility') is one way of looking at risk it's only one way. There are quite a few others and the importance of each will depend on you, as an individual.

It's always a good idea to assess the chances that an investment could fail and therefore cause you to lose all your money. We call this '**default risk**'. Some types of investment are fundamentally low-risk in this regard but come with a fairly low return expectation as a result. Alternatively, some investments may appear to offer good long-term returns but require a fixed holding period or the possibility of being locked in – perhaps just when the investment outlook looks at its most uncertain. We call this '**liquidity risk**'. If rapid access to your money is important to you, this sort of investment – however attractive the returns might seem – will simply be too risky. Also, it's always a good idea to make sure you understand the nature of what you're investing in. For example, even where you may not be confident in choosing investments in individual shares without expert help, you may be perfectly content that you understand the nature of what you're committing to – owning shares in a range of companies whose names and business models you may be familiar with, in return for which you hope to share in the profits (via a regular dividend) and long-term growth in the share price. We call this '**transparency risk**'. That can represent a perfectly acceptable risk for many long-term investors, in contrast perhaps to being asked to invest in an opaque investment fund, whose investment approach is said to be secret. That could well be step too far, from a risk perspective.

Other types of risk include: inflation, political and industry-specific risks.

TYPES OF RISK IN SUMMARY:

- Default
- Liquidity
- Transparency
- Inflation
- Political
- Industry-specific
- Volatility

Finally, you shouldn't underestimate the value of effective engagement with the people or organisations managing an investment fund, or with the management teams of the companies you invest in. You or your professional investment manager need to be effective stewards of your money; making sure that corporate governance standards are high, health and safety laws are abided by and supply chains are transparent and not open to abuse. Companies holding themselves to the highest standards across the full range of their activities and willingly submitting to external scrutiny can be seen as lower risk, from the perspective of their shareholder investors, than companies which have no regard to such best practice standards.

Professional advice should help you to understand the full range of such risks better. If you find that you are unwilling or unable to control such risks personally, it may be a good idea to consider appointing an investment manager to act as an active manager and steward of your money.

DIFFERENT TYPES OF INVESTOR

What type of investor you are also has an important role to play in determining your attitude to risk.

When deciding on your portfolio structure like all investors it's important that you take into account your overall objectives, your attitude to risk, your knowledge and experience, your capacity to stand an unexpected loss and how long you plan to remain invested. That said, the precise emphasis you'll place on each of these criteria will be unique to you. For example, if you're a trustee acting on behalf of a charity or pension scheme then it's likely that what you require from an investment portfolio will not be the same as if you're looking to invest your own money. As an individual you'll naturally consider your personal attitude to risk and required or desired return. In contrast, as a trustee it's necessary to put aside your personal views and to act in the role of a so-called 'prudent person of business'. Trustees are not required to have special knowledge, but where it's required then they must seek advice from a specialist in that field. As a general matter of law, trustees are permitted to make any investment that they might personally make were they to have absolute entitlement to the assets under their care. When exercising this power, trustees must have regard to things like the suitability of the investment they are proposing to make and the need for diversification.

Another important factor that differs dramatically between those investing money as a trustee and those making a personal investment is often the likely time horizon. Trustees of charities in particular often have to consider that their investment time horizon is effectively infinite – especially if the money they are investing will provide its benefit to the charity only by means of the income it's likely to produce. In such cases, it may be unhelpful to view historic risk over a one or even five-year period as any form of guide to risk over the charity's actual likely future time horizon. In this way, charities are often able to take a much longer-term view of investment than would be the case if their trustees were investing their own money. Similarly, short-term fluctuations in the value of a charity's investments need not be as concerning as they would be for an individual investing over a much shorter time period. Indeed, anyone investing with a defined overall period of investment in mind, can't avoid keeping a watchful eye on the day-to-day market value of their investments; in the hope of realising their value at an opportune moment – usually hoped to be at a stockmarket high point.

UNDERSTANDING YOUR NEEDS

We understand that it can be stressful to invest – particularly if you're a first time investor. Fast-moving investment markets, technical jargon and an array of types of investment – all these can feel intimidating. That's why, when you feel ready to consider investing, we'll make sure that you understand the risk you're likely to be exposed to and the returns you should receive in return. Working together, we'll help you to define what you would like to achieve.

Before you choose to invest with us, we'll spend some time understanding your circumstances, your investment objectives, knowledge, experience and crucially your ability to accept a loss, if the unforeseen happens. This will help us to determine your willingness and ability to accept risk, so that we can balance it carefully against your desired outcomes.

To help us to provide you with the right investment strategy and most appropriate service we'll need to gather quite a lot of information about you. This is time well spent for us both and a process we'll repeat regularly to make sure that your strategy remains relevant to your changing personal circumstances.



OUR INVESTMENT PROCESS



1. Risk & Objective Models

Using information gathered about your needs, circumstances and attitude to risk, we'll develop an investment approach that's suitable for you.



2. Castlefield Investment Strategy

We'll use our direct access to the market to invest in line with your agreed strategy.



4. Refine & Rebalance

We can monitor your circumstances and attitude to risk via regular reviews and correspondence, and rebalance your portfolio in line with your changing needs.



3. Implement

We'll create a portfolio with a diverse mix of assets. We're also able to take into account your values so you don't have to compromise your principles. We call this our Thoughtful Investor approach.

AGREEING YOUR INVESTMENT OBJECTIVE AND ACCEPTANCE OF RISK

At the heart of every investment decision is a basic 'trade off' between risk and possible reward. Broadly speaking, the greater the risk attached to an investment, the greater the potential reward but the greater the possibility also of not achieving your objective. Economic cycles and other business and market-specific factors can cause significant changes in the value of many types of investment – both up and down. As a result, investment should only be undertaken with the medium to long-term in mind; by which we mean with a minimum period of five years as the intended time period at the point of investment. In fact, the longer the time horizon you can afford to consider at the outset, the greater the chance of your chosen strategy ultimately meeting your needs.

The diagram on the following page shows a range of typical portfolio structures, each designed to cater for a different Risk Profile.

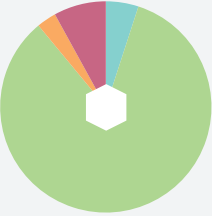

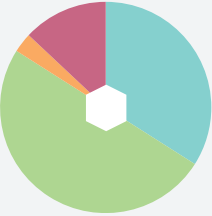

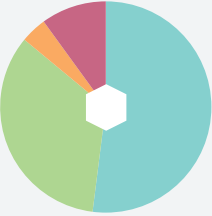

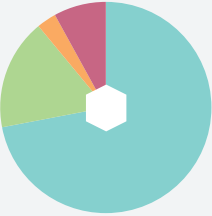

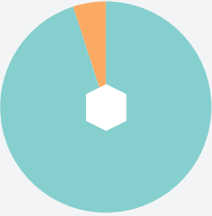

Please note that typical exposures are provided as a guide to the mix of assets likely to be selected by us for you. The exact mix will vary in response to changing market values and/or in response to our short-term market views. As 'strategy' is about the long term (i.e., a period of many years), so suggested typical exposures applying to each of the suggested portfolio structures in the Risk Scale (on page 12) are based on long term

expected returns and risks. However, over short time periods (i.e., perhaps for periods of up to three years), it may be appropriate temporarily to adopt a different structure than that implied by these long-term expectations – sometimes markedly different. To illustrate the extent to which a particular portfolio structure may vary from that implied by the typical exposures shown, we also show 'possible exposures' for each basic portfolio structure. Depending on our shorter-term expected investment returns at the point at which you decide to invest, the resulting mix of investments we select for you may well vary from that implied by the typical exposures shown but should still remain within the highlighted possible exposures for the particular strategy concerned. For example, whilst in normal conditions it may well be appropriate to invest a proportion of your portfolio in fixed interest investments, in the short term, it may be appropriate to invest a lesser amount in such investments, or indeed to invest in other types of investments, as a partial or complete alternative. This will ensure that we don't lose sight of the desire to produce the best return for the overall level of risk you're prepared or able to accept, over all future time periods.

RISK SCALE

INFLATION COMPARATOR

RISK LEVEL

| Risk Profile | Asset Class | Typical Exposure | Min Possible Exposure | Max Possible Exposure | Inflation Comparator | Risk Level |
|--|--------------|------------------|-----------------------|-----------------------|----------------------|--|
| RISK PROFILE I  | Equity | 5% | 0% | 20% | CPI +1% |  Low |
| | Fixed Income | 84% | 80% | 100% | | |
| | Real Assets | 3% | 0% | 10% | | |
| | Other | 8% | 0% | 15% | | |
| | | | | | | |
| RISK PROFILE II  | Equity | 34% | 20% | 40% | CPI +2% |  Low Medium |
| | Fixed Income | 50% | 40% | 60% | | |
| | Real Assets | 3% | 0% | 10% | | |
| | Other | 13% | 0% | 15% | | |
| | | | | | | |
| RISK PROFILE III  | Equity | 52% | 40% | 60% | CPI +3% |  Medium |
| | Fixed Income | 34% | 20% | 40% | | |
| | Real Assets | 4% | 0% | 15% | | |
| | Other | 10% | 0% | 15% | | |
| | | | | | | |
| RISK PROFILE IV  | Equity | 72% | 60% | 80% | CPI +4% |  High Medium |
| | Fixed Income | 17% | 10% | 30% | | |
| | Real Assets | 3% | 0% | 15% | | |
| | Other | 8% | 0% | 10% | | |
| | | | | | | |
| RISK PROFILE V  | Equity | 95% | 80% | 100% | CPI +5% |  High |
| | Fixed Income | 0% | 0% | 20% | | |
| | Real Assets | 5% | 0% | 15% | | |
| | Other | 0% | 0% | 10% | | |
| | | | | | | |

Source: Castlefield

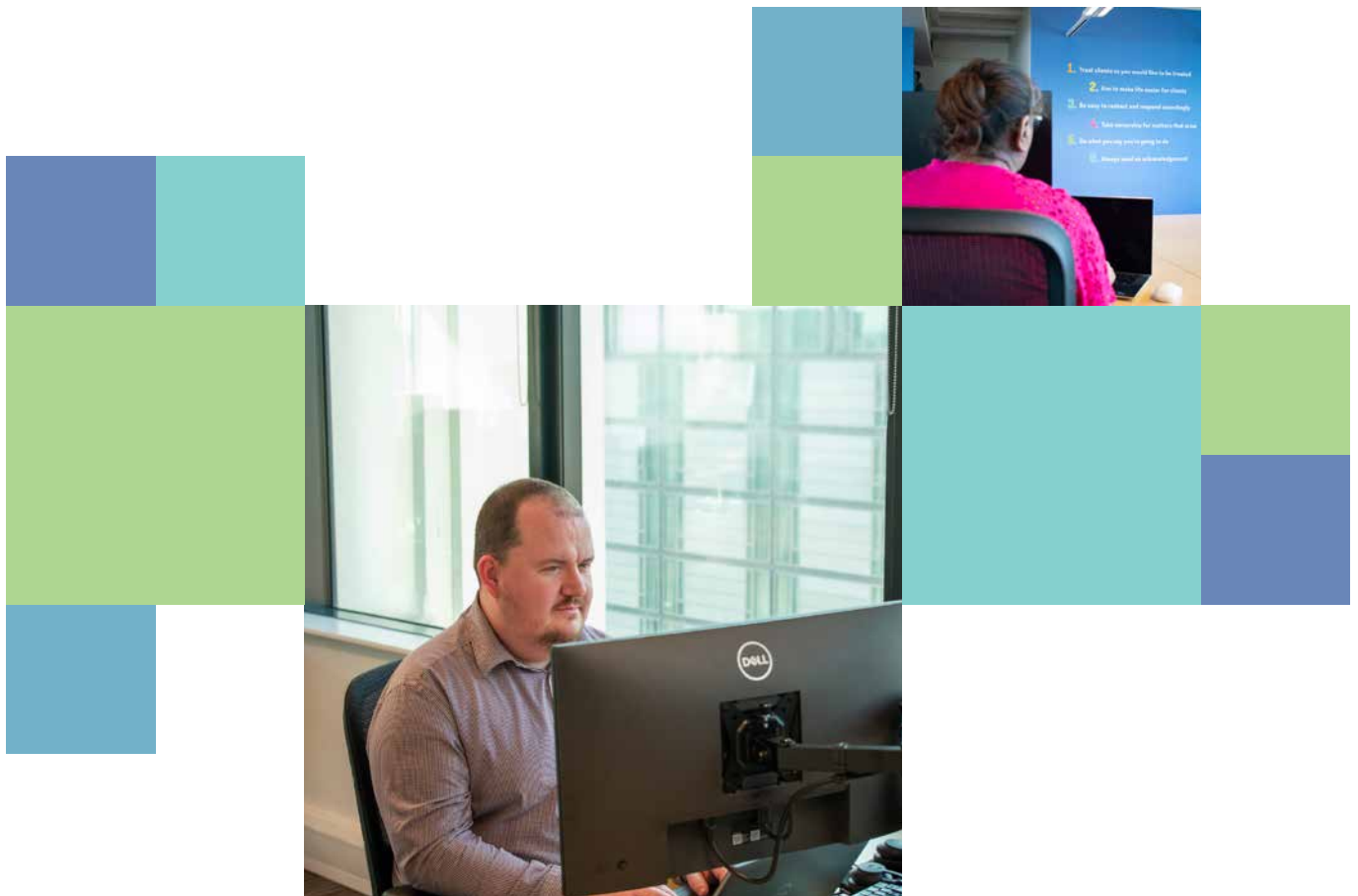
SELECTING YOUR INVESTMENT PROFILE

Choosing an investment portfolio that aligns with your financial goals and personal circumstances is a critical step towards a successful investment journey. At Castlefield, we have developed five clearly defined investment strategies designed to align with our clients' diverse risk appetites. The level of risk and potential for return increases incrementally from one Risk Profile to the next. Each Risk Profile is constructed from a diversified portfolio of assets. Risk Profile I represents our lowest risk approach, while Risk Profile V represents our highest.

Our lowest Risk Profile prioritises defensive assets, such as fixed interest securities, allocating a smaller portion to growth assets, such as company shares (equities). As we move through the strategies, the allocation gradually shifts, with the proportion of growth assets increasing. Consequently, our highest risk approach primarily invests in growth assets. This reflects our expectation that the potential for long-term returns will increase in tandem with the level of risk undertaken.

To illustrate this further, we compare the long-term performance of the Risk Profiles to a comparator referencing inflation, defining 'long-term' as a period exceeding five years. It's important to note that longer investment time horizons increase the probability of achieving the desired returns. The table on page 12 presents this alongside a typical asset allocation for each Risk Profile.

*The inflation comparator provides a long-term expectation based on typical asset allocations. It's important to understand this is not a target that the strategies aim to achieve, and we wouldn't expect each strategy to meet its respective inflation comparator every year.



ESTIMATING RISK AND RETURN OVER THE LONG TERM

The chart below provides a comparison of the possible long term annual investment returns and accompanying risk of each of the five possible Risk Profiles we offer.

| | RISK PROFILE | | | | |
|-------------|--------------|------|------|-------|-------|
| | I | II | III | IV | V |
| Volatility | 4.1% | 6.6% | 9.5% | 12.2% | 15.9% |
| Performance | 4.3% | 4.9% | 5.2% | 5.4% | 5.6% |



Note: The above figures represent estimates as at 31/12/2024.

Source: Castlefield Investment Partners LLP and Morningstar. The risk and returns data is based on observed volatility and returns for each type of investment included, adjusted to represent our future expected levels of volatility and return over the long term. Volatility is the extent to which the value of each portfolio strategy is expected to deviate from its long-term mean value over a 12-month period. Whilst the underlying assumptions upon which each model is based are derived from long-term historical returns data, adjusted for our best estimate of how each type of investment should behave under the conditions we expect for the future, these are not intended as firm predictions of either future returns you'll receive or the risk you'll be exposed to. They represent our best estimate of the expected future average annual returns and likely risks over the long term. We expect you to find the chart most useful as a means of comparing the likely outcome of one Risk Profile with another. In this sense we believe that they're a good guide and should help you to decide on the right approach for you.

FINANCIAL ADVICE VS DISCRETIONARY FUND MANAGEMENT

WHAT ARE THEY?

FINANCIAL ADVICE

- A Financial Adviser will help to assess your overall financial situation and plan accordingly.
- A Financial Adviser will review the suitability of your overall financial plan at set intervals (e.g. annually) to ensure your circumstances have not changed and therefore that their recommendations still meet your needs.
- This means that no inter-review of investments takes place and therefore switches will only be recommended and take place at the point of review.

DISCRETIONARY FUND MANAGEMENT

- A Discretionary Fund Management (DFM) service will manage a pot of money to an agreed strategy.
- A Discretionary Manager will review your portfolio on an ongoing basis and react to events as they happen.
- Decisions can be implemented without the need for approval each time. This enables the investment manager to react quickly to or pre-empt changing market conditions.

GLOSSARY

We all know that getting the best return from our investments whilst ensuring that they match our principles can be challenging enough without having to deal with industry-specific language. At Castlefield we try hard to dispel as much jargon and as many acronyms as possible and we have compiled the following glossary of terms for our clients:

- Active Investing:** An investment strategy involving a seasoned professional investor or team of investors that make decisions on a client's behalf and help to achieve their investment objectives by putting their resources and experience to good use. It is important to recognise certain areas that are well suited to active management, namely property funds where passive funds (see passive investing) cannot gain access to similar underlying assets. It is also beneficial to gain access to the specialisms of different fund managers, when a specialism is required. Managers will have expert knowledge in different fields which will help them to pick holdings and seek out value.
- Cash:** Cash does not reduce in nominal terms. However, this does not mean that it is risk-free as it is subject to the negative effect of inflation. This means that investing in cash over the long term could return even less than inflation (see inflation risk).
- Commodities:** Assets include basic agricultural produce and industrial materials. Investing in commodities can serve to diversify an investment portfolio. Commodity markets can be very volatile and this may lead to substantial gains or losses over a short period of time.

Complex Products:

Whilst there is no single accepted definition of a complex financial asset, the notion of complexity is central to regulatory considerations as to the suitability of some investments for particular categories of client. This in turn can lead not only to unanticipated outcomes for professional managers but also if assets have been aggregated into packaged products and then actively marketed to retail investors. This can increase the possibility of claims of mis-selling.

Some factors that might indicate complexity are:

1. Number of layers

Products with outcomes that are not solely dependent on the primary payoff structure are considered more complex.

2. Use of derivatives

Derivatives are generally regarded as complex instruments owing to the difficulty of determining payoffs and the pricing formula. This means that the number of derivatives embedded in the product can be used to help determine the overall complexity of that product.

3. Use of valuation models

Actual traded prices remain the best determinant of asset value. Where some investments are especially illiquid then it may be necessary to value the asset by marking to a model rather than the market. If the use of such models and their construction are not widely publicly disseminated then the asset valuations may be misrepresented. Assets that cannot be easily valued and where market prices are not readily available are therefore more complex.

4. Number of outcome scenarios

The complexity of an instrument is also determined by their dependency on different contingent events that can impact returns.

5. Transparency

The ease with which the features of the product can be explained to potential investors is an indicator of complexity. The use of technical jargon in a description along with vagueness will reduce the likelihood of an investor understanding the information on the financial product.

| | |
|---|---|
| Corporate bonds: | Securities representing capital borrowed by companies. There is a greater likelihood of default, when compared to government bonds, because companies tend to be less financially stable than governments. Default is rare and most companies pay the interest and capital on their bonds but, due to the higher risk, corporate bonds normally offer higher yields than government bonds. The risk is often measured by the increase in potential return over a comparable gilt this is called the credit spread (see definition below) and also by a credit rating assigned by an agency. As well as the from the risk of default, bondholders are exposed to interest rate and inflation risks. |
| Credit Spread: | A credit spread is the difference in yield between a UK government bond and a debt security with the same maturity but of lesser quality i.e. a corporate bond. |
| Discretionary Fund Management (DFM): | An agreement between client and investment manager where investment decisions are taken by the investment manager within a detailed mandate agreed with the client. |
| Dividends: | A dividend is a distribution of a portion of a company's earnings to shareholders. Dividends can be issued as cash payments, as shares of stock, or other property. |
| Equities: | The value of an asset minus the liabilities on the asset. Due to the wide range of assets available the definition can vary depending on the context. Generally, the term refers to a stock, share or any other security representing an ownership interest. Shares are units of ownership in a corporation or financial asset. These may sit within different parts of the capital structure of the firm such as "Ordinary" or "Preferred" shares, which may confer different rights to holders over voting, dividends or share of profits. If market expectations are positive then the capital value of the shares can increase, however large falls in share price are possible. The risks associated with equities vary depending on geography. Investors can seek to enhance returns by investing in geographical regions with a faster rate of economic growth than the UK. However, this introduces currency risk - if the pound weakens against the local currency this may reduce investment gains or exacerbate losses and vice versa. Generally, developed markets (e.g. the US) are subject to stringent rules on company reporting and have liquid, well-regulated stock markets. The economies of developing nations may offer the potential for strong growth, but can be more volatile than those of developed markets. In addition, they can be less well-regulated and companies may have poorer levels of corporate governance. |
| Exchange-Traded Fund (ETF): | A marketable security which tracks an index. This may be a group of stocks, commodities, bonds or another basket of assets. For example, if an investor wishes to invest in the overall FTSE 100 Index, he or she can buy an ETF that mirrors the movements of the FTSE 100. Investors can also buy ETFs to track many other benchmark indices. |

| | |
|----------------------------|--|
| Fixed Income: | A type of investing where income is received at regular intervals and at reasonably predictable levels and offer reliable returns. Usually associated with government or corporate bonds. |
| Inflation: | The sustained increase in the general level of prices for goods and services in a country and is measured as an annual percentage change. |
| Inflation Risk: | A reduction in purchasing power of a cash flow, due to inflation. |
| Interest Rate Risk: | The risk that an investment's value will change due to an alteration in the interest rate relationship. Interest rate risk affects the value of bonds more directly than stocks, and therefore is a risk that bondholders should be mindful of. |
| Investment Trust: | A type of investment fund that has a fixed amount of share capital and cannot issue or redeem units according to shifts in demand. |
| Liquidity: | Liquidity describes the degree to which an asset or security can be bought or sold in the market without affecting the asset's price. |
| OEICs: | Open-Ended Investment Companies – A form of investment fund similar to Unit Trusts. Investments into and out of the fund are matched by the creation and cancellation of new shares so that the unit price reflects the underlying value of the investment pool. |
| Passive Investing: | Passive funds aim to deliver the returns of indices, a range of companies or commodities. They can help to build a broadly diversified portfolio by tightly tracking the selected indices. These services are traditionally provided at a lower cost. Due to the nature of passive investing few decisions have to be made as the aim of the fund is to mimic the movements of benchmark. |
| Pension: | A type of retirement plan, where an employer or an individual makes contributions toward a pool of funds set aside for an employee's or their own future benefit respectively. The pool of funds is then invested allowing the investor to receive benefits upon retirement. |
| Property funds: | Invest primarily in commercial property, although some also invest in residential property. Investing in property can serve to diversify an investment portfolio and property funds offer diversification from the risks of investing in individual properties. Liquidity is a key risk for the property market. Exposure to the property market can also be sought via investment in real estate investment trusts (see REITs). |
| REIT: | Real Estate Investment Trust. A security that invests in real estate and trades on an exchange like a stock. REITs provide investors with liquid stake in real estate. |

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| Risk: | Risk, in its broadest investment sense, encompasses both volatility and the certainty of potential returns. Volatility can be seen as a measure of the variability of shorter term returns against a longer-term trend. The certainty of returns is another important measure of risk. The certainty of returns will vary depending on the investment. Investing is hardly ever without risk but investors should consider whether the potential returns on an investment are worth the related risk. |
| Structured Products: | Structured products are investments with a pre-set formula for calculating returns and a pre-set formula for calculating risk. The investment is 'built' or 'structured' so that the buyer knows the underlying asset or market their investment returns are linked to and how the 'upside' gains and 'downside' risks will be calculated. |
| Style of Investing: | Often "active" investment managers characterise the manner in which they select investments as conforming to a particular "Style" of investing. This means that the shares which they seek out tend to have common characteristics. Commonly referred to styles include "Value" and "Growth" investing. |
| Tax Planning: | Analysis of a financial situation from a tax perspective with the goal of accomplishing financial goals in all of the other elements of a financial plan in the most tax-efficient manner possible. |
| UK government bonds: | Also known as gilts. They are securities representing capital lent to the UK government to fund public expenditure. Gilts are traditionally considered one of the lowest-risk securities because they are backed by the UK government, therefore repayment at maturity is highly likely. They are easy to buy and sell, even in times of financial distress meaning they are liquid assets (see liquidity). In theory, bond prices move inversely to interest rates (see interest rate risk) this means that the bond price can move above or below the purchase price and even its eventual repayment value. Although gilts are considered a low-risk investment there is still the potential for capital loss and they can be exposed to inflation risk (see inflation risk). |
| Unit Trust: | A form of investment fund established to provide access to an underlying investment strategy to a pool of individual investors. New units are created or cancelled as investments are either committed or withdrawn, ensuring the unit price remains in line with the value of the underlying investments. |



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