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**Investment summary booklet**

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### Introduction

All investments carry some type of investment risk. These risks vary depending on the investment concerned, its nature and characteristics. Common types of risk include:

- Risk that an expected interest payment or dividend will not be made
- Risk that your initial capital investment will not be returned
- Risk of not being able to sell your investment and get back your money when you want it
- Risk that you not only lose your capital investment but also become liable to make additional payments
- Risk that inflation erodes the real value of your investment
- Risk that changes in the currency exchange rate erodes the value of an investment in another country

This fact sheet is designed to provide basic information on the nature and risks of a range of asset classes and investments. It is not meant to be an exhaustive list but to provide sufficient information for you to have an understanding of the main types of investment available. Also, not all investment types are necessarily available to everyone, and depending on the investment vehicle used, there may be restrictions on the investment choices available to you.

It should be stressed however that investments can be complicated and difficult to understand. The nature and risks of a particular investment that you are considering may differ to that shown here. This investment booklet is not a substitute for individually tailored advice, which we would recommend you seek in all instances before you make an investment decision.

# Cash

## **Deposit based**

The most common cash investments are Deposit-based and include bank or building society accounts, National Savings and other interest paying accounts. These accounts pay regular interest, which may be fixed or variable, on the cash invested.

They generally give you easy access to your money, although some accounts may have a notice period before money can be withdrawn or you may suffer a penalty by way of loss of interest for early withdrawals. Security of capital is characteristic of a deposit with a bank or building society account.

Deposit based cash investments are regarded to have a low risk profile; however, the returns may be low too. They generally give lower returns over the medium to long term (for example, five to ten years) than other asset classes. You also have to be careful that the real value of your cash keeps up with inflation. This means the rate of return you get, after tax, needs to be at least the same rate as inflation in order to keep up.

## **Cash Investment Funds**

You can invest in cash through an investment fund, such as a unit trust, which may earn more interest. This is because fund managers have a wider spread of cash investments to choose from, and as they are pooling large amounts of funds can secure potentially better interest rates. Some of these funds invest in higher risk asset back securities in addition to cash deposits and therefore there is the possibility of your original capital not being returned in full.

### **Key Risks**

- Risk that inflation erodes the real value of your investment
- Risk on cash investment funds not returning full value of original investment

In the unlikely event that the investment manager, bank or building society you have placed your money in goes into liquidation, there is a protective net, up to certain limits, provided by the Financial Services Compensation Scheme. You can reduce the risk of losing your money as a result of an individual institution failing by spreading the cash invested across a number of different banks, building societies and investment managers.

# Bonds, fixed-interest and index-linked securities

Bonds are loans made to, for example, governments or companies who are then expected to pay interest, sometimes referred to as the 'coupon' at a specified rate over a set period of time, with the loan paid back at the end of the period. These are a direct investment, and they usually have a fixed term. The overall return you receive if you hold the bond to maturity will depend on the quoted yield that is relevant to the price of the bond at the time you buy. For example a bond with a coupon rate of 5% and a face value of £100 would pay out interest of £5 annually. The purchase price of a bond may be above or below the face value. So if you sell the bond before the maturity date you may make a capital gain or loss depending on the price at which you sell. It is often the case that a bond has a higher yield because it is viewed by the market as having a higher risk of the company or government not meeting the interest payments and failing to pay back the original loan. The highest risk bonds are sometimes known as 'junk bonds'

## Main Types of Traded Bonds:

**Government Bonds** (Bonds issued by the UK government are more commonly known as 'gilts' and those issued by the US government as 'Treasuries') - these are issued by the government to raise funds to satisfy their borrowing requirements. An example being where there may be a need for large infrastructure investment. Bonds issued by many of the major European economies and countries such as the United States, Canada, Japan are usually considered lower risk than those issued by governments where there is a likelihood of that government not being able to meet the interest payments and pay back the original loan. This will be affected by many factors including the economic strength of that country and stability of that government.

**Corporate Bonds** - these are issued by companies to raise funds for activities such as expansion or research and development. These carry a higher level of risk than a cash bank account, as there is no guarantee the company will make the interest payments or pay back the original loan. So bonds issued by a large and successful company may be considered less risky than those issued by a small start-up company.

**Convertible Bonds** - are those which contain an option for the holder to convert the bond into another form of security at a fixed price at some stage. Many are issued by large companies and are often set up to carry the right to be converted into ordinary shares of the same company at some date in the future at a previously specified price. This is often a cheaper way for companies to raise funds than other methods of financing.

Convertible bonds are sometimes regarded as a half way house between investing in shares and investing in bonds as they draw characteristics from both. They usually provide a greater income than shares, but less income than a corporate bond.

Holders of convertibles rank above ordinary shareholders in the pecking order, in the event of the issuer (the company) going into liquidation. Convertible bonds, like shares and gilts are traded on the stockmarket.

**Bond Funds** - You can invest in a spread of government and corporate bonds through a bond fund. Investing this way potentially lowers the risk as the fund invests in a range of bonds and therefore if one bond fails to meet its payments you only have a part of your bond fund invested in it rather than possibly all your money. You need to be able to understand the risk profile of the bond fund; for example, some funds are more sensitive to interest rate changes and others invest in particular types of company, or in countries that may have difficulty paying interest or redeeming them. Consider also whether the fund is spreading its risk across a range of assets in terms of industry sectors, geographical spread etc. The more a fund is focussed on just one sector, the higher your risk is likely to be.

## Key Risks

- Risk that an expected interest payment will not be made
- Risk that your initial capital investment will not be returned
- Risk that changes in the currency exchange rate erodes the value of an investment in another country

In general a direct holding in bonds is lower risk than a direct holding in equities of the same company. This is due to the fact that holders of bonds rank above ordinary shareholders in the event of the company going into liquidation. Where the investment is into a bond fund then the risk is also considered to be lower than a direct investment in bonds due to the professionally managed spread of the Investments within the fund. However, it should be noted that there is almost always a level of risk that the interest payments may not be met or that your capital investment will not be repaid.

# Other types of Bonds

There are many other types of investment vehicle that include the word 'bond' in their name or title. These are not necessarily the same as the traded bonds described above. Bonds may or may not pay a fixed rate of interest. There are bonds that rely on the performance of the stock market to meet their specified rate of return. Bonds exposed to shares to a varying degree include high-income bonds, with-profits bonds and guaranteed equity bonds. It should be noted these other types of bonds, particularly those linked to stockmarket growth, can have the potential to put your capital at risk. Examples of these investments include:

**Premium Bonds** - The National Savings Premium Bond does not pay interest to the bond holder but instead pays interest into a prize fund. Individual bond numbers are entered into a monthly draw for prizes ranging from £50 to £1million. 'Prizes' are free of UK Income Tax and Capital Gains Tax.

## Key Risks

- Risk that you will not win any additional amount
- Risk that inflation erodes the real value of your investment

There is no risk to your capital should you wish to encash the bond, which you can do so at anytime subject to a notice period.

**High-Income Bonds** - These bonds typically require you to tie-up your money for a fixed period, typically of three to five years. High-income bonds guarantee to provide you with an income, which may vary from 7-10% or more.

## Key Risks

- Risk that your initial capital investment will not be returned

In order to achieve this guaranteed income, your capital is at risk and you could, at the end of the term, receive back less than you invested. Each plan is linked to a particular stock market index, and will return your original investment in full only if that index hits certain targets. There is, therefore, a risk that you could lose most or all of your money if the target is not achieved.

**With-Profits Bonds** - A with-profits bond may be invested in a range of different investment types and aims to smooth out the fluctuations of the stock market, providing a lower risk, lower volatility investment. Designed for the medium to long term, the return may vary from year to year and is dependent upon the declared bonus returns from the with-profit fund the bond is invested in. These bonuses in turn are dependent upon the returns achieved by the underlying investments.

One of the features of this type of bond is that you may take an annual income from the investment for 20 years or until the bond is encashed. Any income up to 5% of your original investment is seen as a return of your capital by the tax authorities and so any tax liability is deferred.

## Key Risks

- Risk that your initial capital investment will not be returned

For a with-profits bond, your capital is at risk if the income you take is greater than the return produced by the bond's investments and exit charges may apply. If you encash the bond in its early years you may not get back all of your original investment. Bond providers have the right to apply a Market Value Adjuster (MVA) that may act to reduce the value of your investment upon encashment or transfer. The MVA is applied at times when investment conditions make it necessary in order to protect the interests of policyholders remaining in the fund.

**Unit-Linked Bonds** - The performance of unit-linked bonds directly reflects how well or badly the underlying assets are performing. This makes them more volatile than with-profits bonds and the value of the investment cannot be guaranteed.

**Key Risks**

- Risk that your initial capital investment will not be returned

**Guaranteed Income Bonds** - These bonds are issued by life insurance companies. Your capital is not at risk in a guaranteed income bond. These are straightforward savings plans that offer fixed returns if you invest for a fixed period, not unlike a long notice account from a bank or building society. The return you are offered will vary depending not only on the firm but also the sum you invest and the length of time for which you are prepared to commit it.

**Key Risks**

- Risk that inflation erodes the real value of your investment

Generally considered low risk if issued by a large, reputable insurance company.

**Permanent Interest Bearing Shares (PIBS)** - Although technically shares, PIBS are bonds issued by building societies. They have no redemption date and are bought and sold via the stock market. There is a basic minimum investment. PIBS carry fixed rates, though these can vary sharply between issuers and the actual return, the yield will be affected by the price you pay in the stock market. The interest payable is taxable.

**Key Risks**

- Risk that your initial capital investment will not be returned

# National Savings

National Savings & Investments (NS&I) offers a limited range of products that are backed by the government; all of which guarantee the return of your original capital in full.

**Fixed Interest Savings Certificates** - These are lump sum investments that earn guaranteed rates of interest over set periods of time, called 'terms'. They are free of UK Income Tax and Capital Gains Tax; irrespective of what rate you normally pay. There are limits to the amount you can invest. The interest rate is guaranteed for the term of the investment and the capital is returned in full.

**Index Linked Saving Certificates** - Similar to the above but the value of the investment increases in line with inflation as measured by the Retail Prices Index (RPI) and earns guaranteed interest rates on top. They are free of UK Income Tax and Capital Gains Tax; irrespective of what rate you normally pay. There are limits to the amount you can invest. The interest rate paid in addition to whatever the inflation rate is over the term of the investment is guaranteed and the capital is returned in full.

**Income Bond** - Pays out variable taxable interest in a similar way that a bank / building society would. There is no fixed term but there is a limit on the amount that can be invested. Capital returned in full.

**Fixed Rate Bond** - Effectively the same as the Income Bond, however the interest rate is fixed over a selected term. Tax is due on the interest and capital is returned in full at the end of the term.

## Key Risks

- Risk that inflation erodes the real value of your investment (other than for index linked savings certificates)

These are all considered to be very low risk as they are issued and backed by the UK government

# Unit Trusts, Open Ended Investment Companies (OEICs) & Investment Trusts

**Unit Trusts** - These are “open ended” collective funds that offer the potential for income or capital growth (or both) from stock market backed investments. A Unit Trust is a fund, managed by investment specialists, which pools investors’ money, thus enabling the purchase of a wider range of investments. Unit Trusts can be found that invest in most stock markets and funds are available that focus on particular investment areas such as certain parts of the world, individual countries and even specific areas of industry such as technology or pharmaceuticals. If you invest in a unit trust your money is used to buy units and the more people that invest in the Unit Trust, the bigger the trust gets

By being “open ended”, Unit Trusts can expand and contract in response to demand. The unit price of a Unit Trust is the value of all the underlying investments, divided by the number of units in issue. As an ‘open-ended fund’ the fund gets bigger and more units are created as more people invest. The fund shrinks and units are cancelled as people withdraw their money.

Unit trusts often have two prices, the price at which you buy (“offer price”) and the price at which you sell (“bid/price”). The offer price is higher than the bid price. This difference between the two prices is known as the ‘bid offer’ spread. This spread is effectively part of the fund manager’s charges. The fund managers also levy an annual management charge which is calculated as a percentage of the value of your unit holding, typically 1%-1.5%. There may also be exit fees, although more often than not these are applied where funds have no or low initial charges.

## Key Risks

- Risk that an expected dividend will not be made
- Risk that your initial capital investment will not be returned
- Risk that changes in the currency exchange rate erodes the value of an investment in another country

The level of risk of a Unit Trust will depend on the underlying investments. Unit Trusts are generally regarded as being a higher risk investment than cash and Gilts. Their value is subject to the fluctuations of the Stock Markets. Risk is generally reduced, however, by the professionally managed spread of the Investments within the fund.

**Open Ended Investment Companies (OEICs)** - OEIC’s are pooled collective investment vehicles, in company form and were introduced in 1997 as a more flexible alternative to established unit trusts.

An advantage of the increased flexibility an OEIC has over a Unit Trust is the ‘umbrella’ fund structure, allowing for many ‘sub-funds’ with different investment objectives. This means you can invest for income and growth in the same umbrella fund, moving your money from one sub fund to another, as your investment priorities or circumstances change. Some OEIC providers allow you to do this without charge if you stay within the same share class (with the same charging structure).

By being “open ended”, OEICs can expand and contract in response to demand - just like unit trusts. The share price of an OEIC is the value of all the underlying investments, divided by the number of shares in issue. As an ‘open-ended fund’ the fund gets bigger and more shares are created as more people invest. The fund shrinks and shares are cancelled as people withdraw their money.

OEIC shares are bought and sold at a single price. All charges, such as the initial charge, are shown separately, making it easier to understand exactly what costs are involved. Like unit trusts, OEIC’s normally carry an initial charge, similar to the bid / offer spread of Unit Trusts. This initial charge varies but can sometimes be as much as 6%. Additionally, as with Unit Trusts, there is an annual management charge, which is typically 1%-1.5% and again there may also be exit fees, although more often than not these are applied where OEIC’s have no or low initial charges.

### **Key Risks**

- Risk that an expected dividend will not be made
- Risk that your initial capital investment will not be returned
- Risk that changes in the currency exchange rate erodes the value of an investment in another country

As with Unit Trusts, the level of risk of an OEIC depends on the underlying investment. OEICs are regarded as being a higher risk investment than cash and Gilts. Their value is subject to the fluctuations of the Stock Markets. Risk is again generally reduced, however, by the professionally managed spread of the Investments within the fund

**Investment Trusts** are similar to OEICs and Unit Trusts in that they are pooled investments investing in a wide range of investments.

The main difference however is that an Investment Trust is a company in its own right, and shares of the investment trust itself are traded on the stock exchange and have a fixed number of shares in issue.

This means that, unlike the other pooled investments; the price you pay reflects the market demand for the investment trust shares rather than directly reflecting the value of the underlying assets. Therefore sometimes you'll buy at a 'premium' to the asset value or in other words pay more than the underlying value. Other times you'll buy at a 'discount' or in other words pay less than the underlying value. An example of this is where the value of the underlying assets is 200p and the share price is 180p. This means the share is trading at a 10% discount and you are effectively getting more value for your money. If the share price were 220p then the opposite would be true.

### **Key Risks**

- Risk that an expected dividend will not be made
- Risk that your initial capital investment will not be returned
- Risk that changes in the currency exchange rate erodes the value of an investment in another country

Conventional ordinary shares of Investment Trusts are considered to be slightly higher risk than unit trusts and OEICs as an Investment Trust may borrow money to invest on behalf of its shareholders, known as 'gearing'. This can provide a boost to investment performance when markets are rising. However, equally, when they are falling, the falls may be exaggerated. Another difference is that Investment Trusts are permitted to invest in unquoted shares and unregulated markets, which again can add to the risk for investors, even if the potential rewards might be greater.

**Split Capital Investment Trusts** - These are more commonly referred to as Splits and are those with a portfolio of investments just like ordinary investment trusts, but they issue different types of share, each of which carries different rights to participate in the income and capital returns from the trust's portfolio.

A simple split trust might, for example, have two types of share, one offering only the income stream (Income Shares) from the dividends and the other offering no income but the capital growth (Capital Shares) of the underlying assets, to be realised at a set date in the future.

### **Key Risks**

- Risk that an expected interest payment or dividend will not be made
- Risk that your initial capital investment will not be returned
- Risk that changes in the currency exchange rate erodes the value of an investment in another country

Split Capital Investment Trusts carry similar risks to Investment Trusts, but there are additional risks depending on the structure of the Trust and the different types and nature of shares issued. They are therefore generally considered to be high risk or even very high risk. Due to the falling markets between 2001 – 2003 many of the Capital Shares of 'Splits' that had borrowed heavily to invest found that the effect of the gearing, together with the trust structure led to many shares losing all their value in a short space of time. This was exacerbated by the fact that many of these Investment Trusts invested in each other's shares. By 2004 investors had lost over £600M as a result of these problems and many of these Splits no longer exist.

# Property

There are two main types of property investment:

**Direct property purchase** - either buying to let, or to develop and sell for a capital gain where the property can be either commercial or residential. The costs involved in direct property investment are normally quite high as are running costs due to the maintenance and upkeep of the property. An individual is usually unable to achieve a wide spread of property investments because of the capital cost of purchase, so the investment is concentrated, possibly in a single property.

**Property funds** - these allow investors to pool their money in the same way as Unit Trusts & OEICs, which can spread risk. Returns are determined by changes in the market value of the properties held, as well as rental income.

## Key Risks

- Risk that an expected rental income will not be made
- Risk that your initial capital investment will not be returned
- Risk of not being able to sell your investment and get back your money when you want it
- Risk that you not only lose your capital investment but also become liable to make additional payments
- Risk that changes in the currency exchange rate erodes the value of an investment in another country

The fluctuating state of the property market provides an element of risk. The main risks involved in investing in property are that property is not easy to sell which means you may not be able to cash in your investment when you want, and there may be a delay. The value of property is generally a matter of valuers' opinion rather than fact. Properties may fall in price, and the rental market may decline. Investing in a property fund lessens the impact of these risks due to the spread of investments. However there may still be delays in you being able to sell the units in a property fund due to the underlying assets not being easily saleable.

# Equities

Also known as stocks or securities, equities are shares listed on a stock exchange. They typically offer a share in the profits of the company in the form of dividend payments. A dividend is simply the sum of money that a company decides to divide amongst its shareholders.

Dividend income isn't the only potential benefit of equity investment. The value of shares may increase as company profits increase, or as a result of market expectation. Historically, over the longer term (at least ten years), equities have generally been a better performing asset than cash, bonds and property. However, past performance isn't a guide to future performance and you can lose your entire investment should the company fall on hard times or fail completely.

You can buy equities directly from a stockbroker or trader, or invest through an investment fund such as a Unit Trust, OEIC or Investment Trust.

## Key Risks

- Risk that an expected dividend will not be made
- Risk that your initial capital investment will not be returned
- Risk that changes in the currency exchange rate erodes the value of an investment in another country

Prices for an individual equity can fluctuate suddenly, and sometimes very sharply, making equities the riskiest asset class compared to cash, bonds, property and pooled investments such as Unit Trusts, OEICs and Investment Trusts. Equities ought to be considered for medium to long-term (at least 5-10 years) investment. The risk of fluctuation generally makes them unsuitable for shorter terms.

## Individual Savings Accounts (ISA)

An ISA is not an investment product in its own right but is simply a wrapper for cash or stocks and shares investments. Interest or dividends reinvested in the ISA, and any capital gains are currently tax-free. However, the government sets maximum limits for the amount that an individual can invest in ISAs in any one year. These limits differ depending on the type of ISA being invested in.

## Key Risks

As the ISA is merely a wrapper it is the underlying investment that needs to be considered when assessing the risks of a particular ISA.

# Venture capital trusts (VCTs) and Enterprise investment Schemes (EIS)

**Venture Capital Trusts (VCTs)** - VCTs aim to make money by investing in new share issues. The underlying companies tend to consist of unquoted companies, those traded on the Alternative Investment Market (AIM) - the stock market for small and young companies - and those traded on PLUS Markets, the off-exchange trading facility for even smaller companies. There are strict limits on the size of companies in which VCTs may invest and investments need to qualify by complying with the 'gross assets test', which in effect limits the companies available for investment to those at the lower end of the valuation scale. This is to ensure that the focus of investment is into the companies most in need of improved access to finance.

There are tax advantages when investing in VCT's in the form of tax relief and tax-free dividends subject to certain limits.

**Enterprise Investment Scheme (EIS)** - An EIS is an investment in a single company, which is unquoted (privately held). In common with the rules governing VCTs, EIS companies must have no more than 50 employees. As with VCTs there are certain tax advantages such as exemption from capital gains on disposal and tax relief on losses on disposal.

## Key Risks

- Risk that an expected dividend will not be made
- Risk that your initial capital investment will not be returned
- Risk of not being able to sell your investment and get back your money when you want it
- Risk that changes in the currency exchange rate erodes the value of an investment in another country

Both VCTs and EISs are very high risk investments with 1 in 10 new start up companies failing. They are also highly illiquid (there are infrequent opportunities to realise the investment). There is no standard mechanism in place through which individual investors may sell unquoted EIS shares, which means it may be difficult or even impossible to sell them.

# Futures, Options, Warrants, Contracts for Differences, Derivative and Hedge funds

These types of investment are all classed as derivatives and are considered to be higher-risk investments.

**Futures** - A futures contract describes the purchase or sale of a commodity, financial instrument or index at a fixed price at a fixed date in the future. No interest or dividends are paid.

Futures contracts were originally invented to allow those who regularly buy and sell goods to protect themselves against future changes in the price of goods.

If you buy a futures contract, you have agreed to take delivery of a commodity at a given date in the future. You have no alternative (unless of course you sell the contract on to somebody else).

You only have to put up a fraction of the value of the trade, commonly 10%, however the gains or losses can be far greater than the amount of capital you placed on the trade

## Key Risks

- Risk that your initial capital investment will not be returned
- Risk of not being able to sell your investment and get back your money when you want it
- **Risk that you not only lose your capital investment but also become liable to make additional payments**
- Risk that changes in the currency exchange rate erodes the value of an investment in another country

These are **very high risk** with the potential for huge gains and **huge losses**. They are really only suitable for experienced investors and speculators who have a detailed understanding of the markets and sufficient money to be able to afford **not only to lose their original investments but also to meet any additional costs at the time of delivery**. Private investors should consider applying a stop / loss when trading in Futures as a safety measure.

**Options** - An option is a contract giving the right to sell (a 'put' option) or buy (a 'call' option) a commodity, financial instrument or index, at a specified price for a certain period. No interest or dividends are paid. Options, like Futures, are derivatives that allow you to put down a small stake but provide you with exposure to a much larger investment. You only have to put up a fraction of the value of the trade, commonly 10%.

With an option, you are not bound to take or make delivery. If you choose, you may decide against taking or making delivery and either sell the option to another person or let the option 'lapse'.

## Key Risks

- Risk that your initial capital investment will not be returned
- Risk of not being able to sell your investment and get back your money when you want it
- Risk that changes in the currency exchange rate erodes the value of an investment in another country

These are **very high risk** with the potential for huge gains and **huge losses**. **The likelihood of losing the whole of the original investment can be very high**. For a put option, if the market price at the end of the period is above the option price, then the option is valueless. For a call option, if the market price at the time of exercise is below the option price, then the option is valueless. Options are really only suitable for experienced investors and speculators who have a detailed understanding of the markets and have sufficient money to be able to afford to lose their original investment.

**Warrants** - Warrants are tradable rights to buy a given number of shares in a company at a fixed price called the 'subscription price' at some future date usually several years ahead.

Like share options, a warrant gives you the right to buy shares at some predetermined date but the warrant holder is under no obligation to do so. Like options, warrants pay no interest or dividends and like options they have a substantial gearing effect. The prices of warrants tend to move up and down in line with the price of the underlying shares to which they are related. Warrants are often issued with new share issues.

It is worth remembering that if the underlying shares fall substantially, the warrants are likely to be worthless. There are a number of collective investment funds which invest exclusively in warrants.

Ultimately, holders of warrants are hoping either to realise a gain, or eventually to buy the underlying shares on which they are based more cheaply than on the normal market. If neither occurs, the warrants will eventually “expire” with no value.

#### **Key Risks**

- Risk that your initial capital investment will not be returned
- Risk of not being able to sell your investment and get back your money when you want it
- Risk that changes in the currency exchange rate erodes the value of an investment in another country

These are **very high risk** with the potential for huge gains and huge losses. Should the warrant expire with no value then you would lose **your entire original investment**, which is not an uncommon occurrence. They are really only suitable for experienced investors and speculators who have a detailed understanding of the markets and sufficient money to be able to afford to meet the huge losses that may result

**Contracts For Difference (CFD's)** - CFD's are a way of trading the price direction of shares, without actually holding the share, or the direction of world stockmarkets. One of the key differences to share dealing is that you can potentially benefit from falling markets or share prices as well as rising ones. CFDs are an agreement between two parties to exchange the difference between the closing price of a contract and the opening price of the contract. Like an equity trade, you are able to open and close trades on demand and at market price. They are used by investors to hedge against market and price movements but are also commonly used by speculators who gamble on the future price and market direction.

You take what is known as a position. A ‘long’ position is betting that the price / market index will rise, or a ‘short’ position, betting that the price / market index will fall. You only have to put up a fraction of the value of the trade, commonly 10%, however the gains or losses can be far greater than the amount of capital you placed on the trade.

#### **Key Risks**

- Risk that your initial capital investment will not be returned
- Risk of not being able to sell your investment and get back your money when you want it
- **Risk that you not only lose your capital investment but also become liable to make additional payments**
- Risk that inflation erodes the real value of your investment
- Risk that changes in the currency exchange rate erodes the value of an investment in another country

These are **very high risk** and there is the potential for huge gains and **huge losses**. They are really only suitable for experienced investors and speculators who have a detailed understanding of the markets and sufficient money to be able to afford not only to lose their original investment but also the meet any additional costs at the end of the period. These additional costs could be very large.

**Hedge Funds and Derivative Funds** - These operate in a similar way to other pooled investment funds, but the underlying investments are the derivatives as detailed above. You are normally required to have a high minimum investment before being allowed access to such funds.

#### **Key Risks**

- Risk that your initial capital investment will not be returned
- Risk that changes in the currency exchange rate erodes the value of an investment in another country

These funds carry similar risks to the underlying investments. As such they are **very high risk** and you may lose your entire original investment.

# Unlisted Shares

These are shares in a company but they cannot be traded on any of the main world markets.

## **Key Risks**

- Risk that an expected interest payment or dividend will not be made
- Risk that your initial capital investment will not be returned
- Risk of not being able to sell your investment and get back your money when you want it
- Risk that changes in the currency exchange rate erodes the value of an investment in another country

Unlisted shares carry similar risks to equities, in that their value can fluctuate suddenly and sometimes sharply. As they are often shares in small or recently established companies they can carry additional risks depending on the future strength of the company. They also have added risks in that if there is not a ready market for the shares, they may be difficult to sell in the future which means you may not be able to cash in your investment when you want, and there may be a delay. The value of unlisted shares is generally a matter of valuer's opinion rather than fact.

# Pension Scheme Arrangements

There are two main forms of pension arrangement in the UK. Defined benefit, or final salary pension schemes, which are employer sponsored and provide benefits at retirement calculated based on the members earnings. Defined Contribution, or money purchase schemes may be employer sponsored or may be arranged privately by an individual. The benefits available from a money purchase scheme depend on the value of the fund at the time benefits are taken. The following notes apply to money purchase pensions.

Many different money purchase pension arrangements are available. These include the Executive Pension Plan (EPP), Self Invested Personal Pension (SIPP) Personal Pension Plan (PPP) and many others. The detail of how these different arrangements operate differs, but fundamentally, investing in a pension plan is a tax efficient method of saving for retirement. Contributions, and investment income and capital growth within the pension plan are generally free from UK income and capital gains tax. Different plans will have different rules regarding the types of investment you can have under the plan.

Pension plans are also subject to HMRC (Her Majesty's Revenue and Customs) requirements. For example:

The amount that can be invested each year is limited

Some investment types do not benefit from tax free income and growth (including Premium Bonds, ISAs and residential property)

The timing, amount and form of benefits (tax free lump sum or pension) payable from a pension plan are also restricted.

Other than in exceptional circumstances, and depending on the rules of the particular scheme, you are not permitted to take benefits from a pension scheme until age 50 (or 55 from 6 April 2010). You are not permitted to receive the whole of the pension plan fund as a lump sum. Part of the fund must be paid as a pension, annuity, or taken through an income withdrawal arrangement. Not all pension plans permit income withdrawal. If the pension has to be purchased as an annuity from an insurance company, the amount of your annuity will depend on the size of your fund and the cost of purchasing an annuity at the time of your retirement.

## **Key Risks**

- Risks as apply to the underlying investments
- Risk that you may not be able to take benefits when you wish
- Risk that you may not be able to take benefits in the form that you wish (i.e. amount of tax free lump sum is restricted)
- Risk that the cost of purchasing an annuity will be high at the time of retirement (if the pension plan requires that an annuity be purchased)

A money purchase pension plan is effectively a wrapper and it is the underlying investments that need to be considered when assessing the investment risks of a particular pension plan.

# Other Investments

There are many other investments; examples of which are rare stamps, vintage wines, racehorses etc which could best be described as exotic and where specialist advice would need to be sought before any consideration to invest in such products.

## Key Risks

- Risk that an expected interest payment or dividend will not be made
- Risk that your initial capital investment will not be returned
- Risk of not being able to sell your investment and get back your money when you want it
- Risk that you not only lose your capital investment but also become liable to make additional payments
- Risk that inflation erodes the real value of your investment
- Risk that changes in the currency exchange rate erodes the value of an investment in another country

The risks could be any or all of the main investment risks, depending on the particular investment being considered

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