Investment Principles

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Introduction to investing

The world of investing can seem a bit daunting, particularly if you're new to it.

This pack is designed to demystify some of the basics surrounding investing and give you some insight into how it works. We'll talk you through your options and our four investment principles to help you make more of your money without taking any more risk than you're comfortable with.

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1. Setting investment goals

Setting investment goals

When creating a portfolio it is crucial to understand the amount of risk you are willing to take, and your investment objectives over the short, medium and long term, as this will determine the best type of asset mix, and ultimately the potential investment rewards they can expect to generate.

Time horizon is also important – if you are saving for retirement for example, the closer you get to your goal the less risk you are likely to want to be exposed to! You don't want your lump-sum fluctuating wildly just before retirement.

These pie charts show how the composition of a typical portfolio could change over the lifespan of an investor. But what do these pie charts mean, and how do we decide on the ingredients?

Over the following pages we will look at the important things to consider when deciding on a portfolio that's right for you.

25 years to maturity

- Bonds 5%
- UK Equities 45%
- International Equities 50%

10 years to maturity

- Bonds 45%
- UK Equities 35%
- International Equities 20%

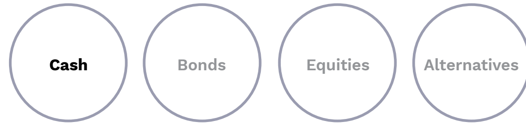
5 years to maturity

- Bonds 65%
- Cash 12%
- UK Equities 15%
- International Equities 5%

2. Types of investment

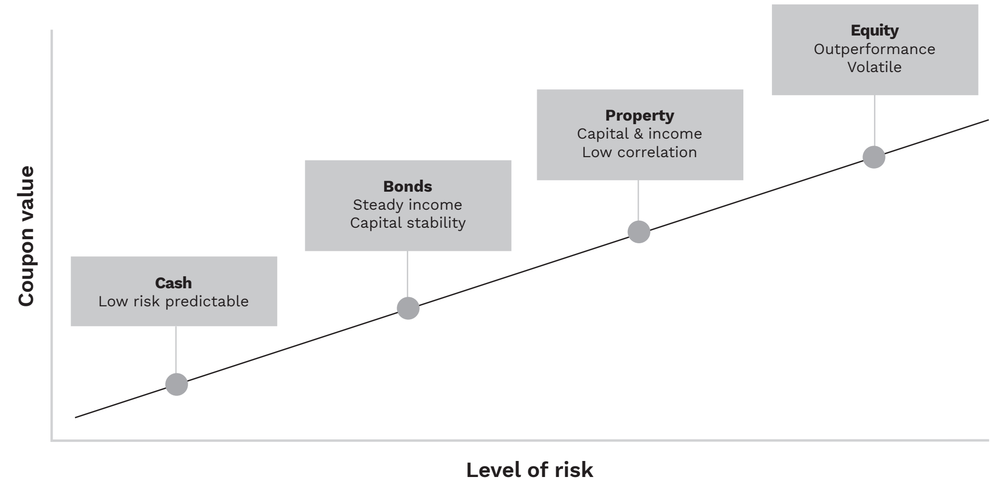
Types of investment

Cash



What are your choices when looking to beat inflation and achieve your long-term objectives? Here we look at the main options available and highlight the potential benefits and pitfalls of each.

You can invest in almost anything, including the likes of fine wines and antiques. More traditionally however, there are four core areas of investment, or 'asset classes' as they are known.



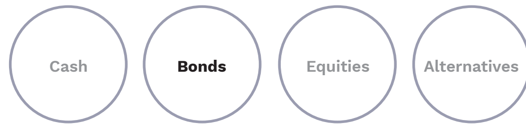
Cash

Cash is the asset class with the least associated risk and is useful as part of a diversified portfolio as it offers security and easy access. There are many places you can hold cash, with banks and building societies offering cash savings accounts.

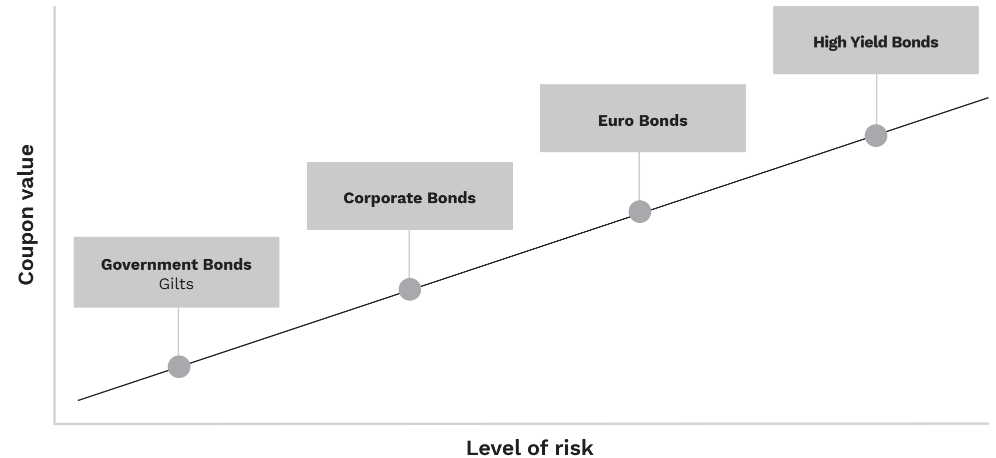
Whilst cash offers the benefit of easy access, it tends to provide lower long-term returns than other asset classes and its value can be eroded by inflation.

Types of investment

Bonds

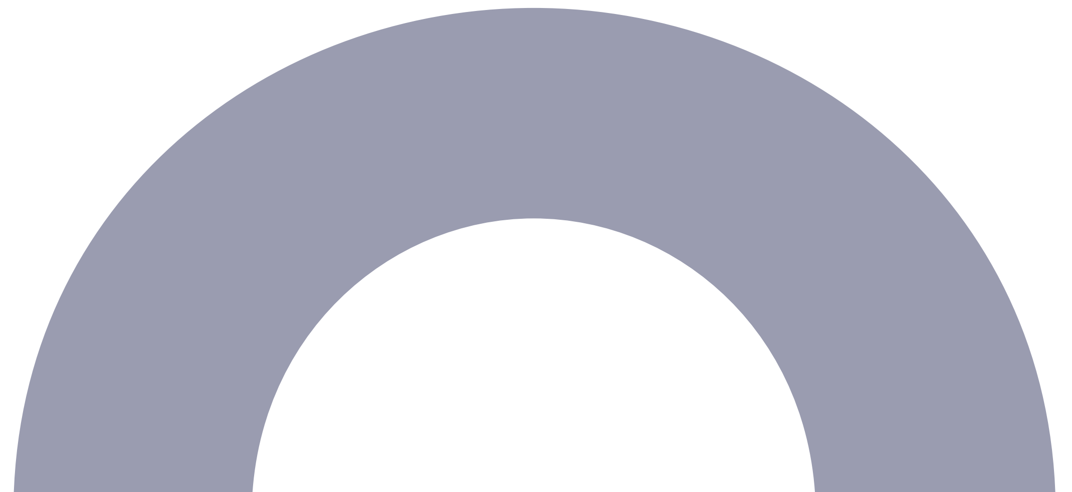


Bonds are issued by companies or governments looking to raise cash. By investing in a bond you are in effect lending the issuer your money in return for a regular income and your capital back at a set date in the future. The characteristics of bonds mean they are a key portfolio component for more cautious minded investors.



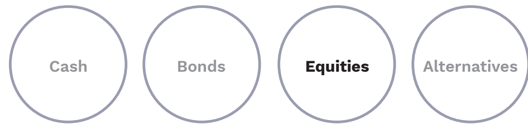
Bonds tend to fluctuate in value less than shares and should repay your original investment at the end of a fixed term. However, the scope for your money to grow is usually limited in comparison to the growth achieved historically by shares, and there is the possibility that the issuer could default on the loan. Fluctuations in interest rates can also affect the value of a bond – generally when interest rates rise, bond prices fall and vice versa.

Although bonds are usually considered medium risk, this depends hugely on who is issuing them. Bonds issued by the UK Government are called Gilts and are very safe, whilst the risk involved in corporate bonds is dependent on the business issuing them. The level of income a bond pays reflects the risk you are taking – a company with a higher risk of default will have to reward investors with a higher yield.



Types of investment

Equities (or shares)



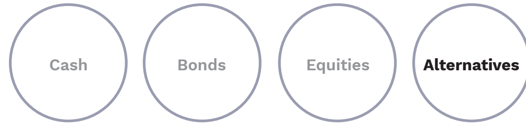
Equities are probably the best known of the asset classes and are quite simply an ownership stake in an individual company listed on a stock market index, such as the FTSE 100 in the UK, the S&P 500 in the US or the Nikkei 225 in Japan.

People invest in shares in anticipation of an increase in their value, and/or the receipt of a regular income through dividend payments. Whilst history should not be considered a guide to the future, it does show that over the longer term equities tend to outperform other types of investment.

Of course, shares can be volatile, and their value can go up as well as down and you may not get back the full amount invested and the fortunes between different shares can vary dramatically.

Alternative investments

e.g. property



The scope of today's investment world is greater than ever before, and whatever the angle, there is usually a collective investment providing access to it (we'll look at collective investments on page 11). Private equity, hedge funds and property are just some of the 'alternative' asset classes which are now easier for private investors to access.

The family home is the most significant investment many of us will ever make, and one that given time is likely to net a tidy profit. Returns from property investments tend not to be closely correlated with those of shares or bonds. This makes it useful from a diversification perspective introducing another source of capital growth potential and income into your investment portfolio.

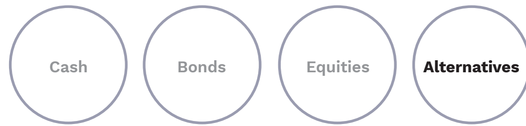
Although property tends to be less volatile than equities and bonds, its value can fall as well as rise. It is also less liquid than other assets, meaning that it takes longer to invest into, and also to access your money when you need it.

Of course, focusing purely on residential property ignores other opportunities including those offered by commercial property. Property investment funds have proven popular as they provide access to commercial property to those unable to own for example an office block or a shopping centre.

Infrastructure funds invest in large, high cost projects, often connected to government and other public bodies development of core systems of transportation, communications, electrical supply etc.

Natural resources investment is investing in the companies (either directly or through funds) that are involved in the extraction of oil, gas, coal, metals and other natural resources.

Collective investments



Investing in individual companies carries more risk and requires more knowledge to make the right choices, to monitor your investments and make changes as necessary. For these reasons, adopting a collective approach can be extremely beneficial when entering the world of investing.

Mutual, pooled or collective funds are offered by investment management companies and provide easy access to a range of asset classes.

When you invest in a collective, your money is added to that of many other investors which professional fund managers then invest in a range of different assets e.g. equities, bonds, property etc.

Because your money is pooled with other investors, it means that even if you only have a small amount to invest, you can access a range of investments that otherwise you might not be able to.

3. Investment principles

Investment principles

In the previous section we focused on ways of accessing different asset classes. Now we look at some of the key things we strongly believe create a platform for successful long-term investing. We call these our investment principles.

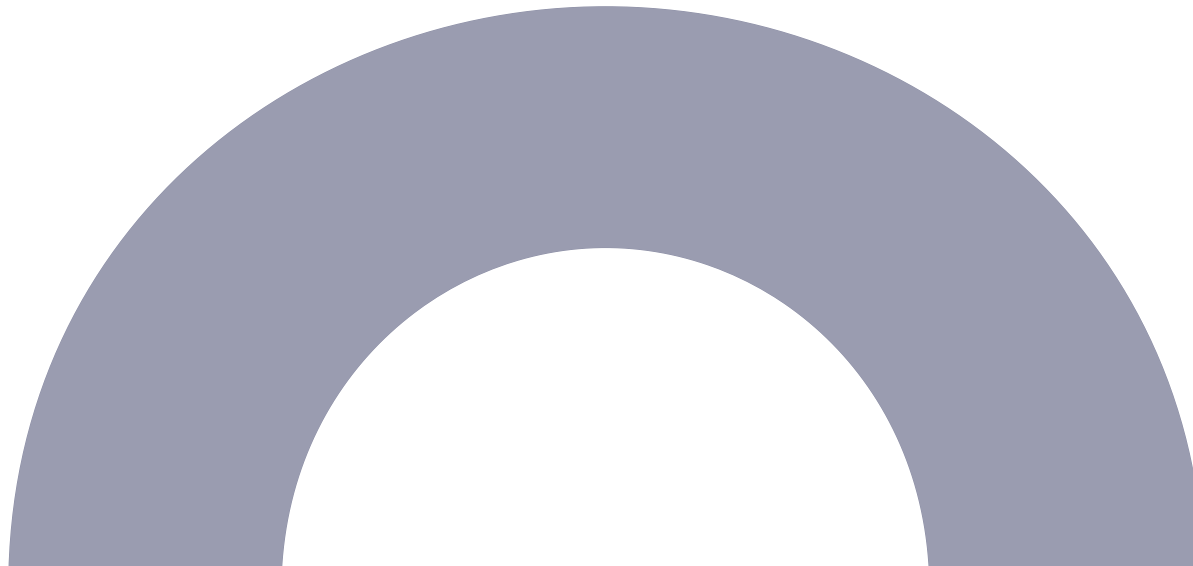
Understanding your attitude to risk

When choosing how and where to invest, you need to establish a plan that reflects your investment goals, perspective on risk and the amount you are willing to invest. Establishing your attitude to risk is essential. How you feel about the prospect of placing money at risk and your ability to accommodate any potential loss in value is uniquely personal to you. An investment which seems full of exciting potential to one individual can seem too risky to another.

Whether you are investing for the short, medium or long term is also important, and will have an impact on how you view risk. With a longer time horizon you may be happy to accept more risk for greater potential returns to achieve your objectives, however, the closer you get to your goal the less risk you are likely to want to be exposed to, and your investment approach will need to be reviewed and adjusted accordingly.

Even the best laid plans can't be expected to cope with all that life throws at you, and there are likely to be times when one-off events prompt a reappraisal and adjustments to your finances. There may be scenarios such as an inheritance, where you now suddenly have more wealth to manage than before or a divorce where a change in your circumstances will often necessitate a complete financial review. Either way, you will have to reassess your tolerance and willingness to take risk, particularly in the context of your long-term planning or retirement.

It's not just future investment decisions that are likely to be affected, and you will probably find that any existing investments will need reviewing in terms of their suitability. Tweaking around the edges of your existing portfolio might not be sufficient and it makes sense, when things fundamentally change, to undertake a full financial health check – one that results in your finances being fully aligned to your new circumstances.



Diversification is key

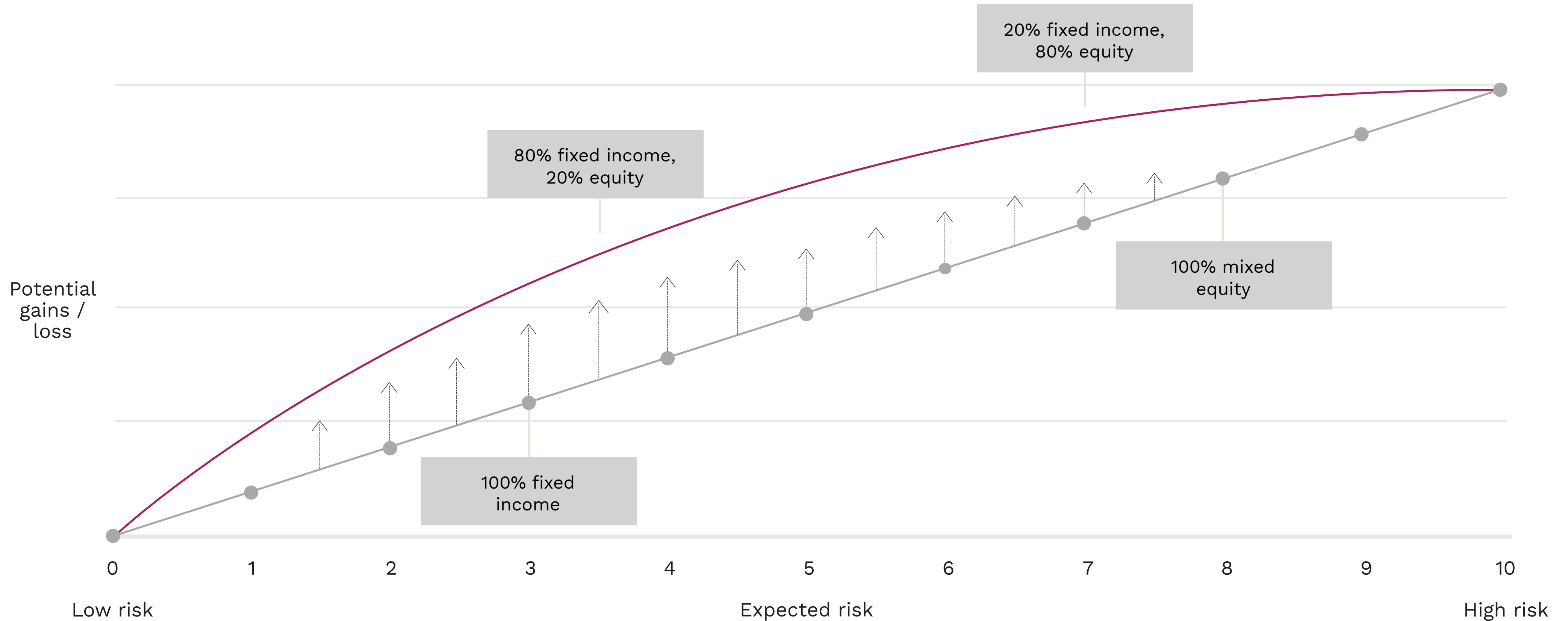
Holding a range of different investments is one of the foundations for investment success. By not putting all your eggs in one basket you are limiting the impact of loss in any particular area and giving yourself the opportunity to generate investment performance from a range of different sources.

Get the balance right - getting the right blend between assets involves more than a random selection and requires a careful assessment of their respective characteristics, behaviours and interrelationships. Getting the balance right between different asset classes is key!

Some asset classes – like cash and bonds have more 'defensive' characteristics, whilst equities - which carry more risk - can offer greater growth potential for your portfolio. Ultimately, you should look to have 'balance', providing scope for out-performance, whatever the prevailing financial backdrop.

Diversified portfolios

Effective diversification means a higher expected return for a given level of expected risk. This is achieved by combining assets which can reasonably be expected to behave differently over time, as illustrated by the pink performance line below.



Past performance is not a guide to future performance and should not be relied on.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Chart is figurative only.

Diversification

Look at the evidence

Different types of investment (asset classes) and regions of the world all perform differently. Diversifying your investment by spreading it across many different asset classes and regions of the world means that, when certain segments aren't performing as well, others in your portfolio are likely to be doing better and this will help protect the value of your overall investment. This chart shows how different asset classes have performed in recent years, with the results for each year ranked in order of performance. The performance of the FTSE All Share index is highlighted on the chart to illustrate how the performance of one market (UK Equities) can vary relative to others from year to year.

Market Indices *(used for the performance data of each asset class)*	**Asset Classes**	**Asset class performance is listed from best to worst for each year**													
		2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
FTSE All Share	UK Equities	47.75%	42.75%	58.93%	32.82%	19.94%	15.78%	24.95%	18.96%	8.60%	49.55%	25.40%	4.64%	30.33%	19.31%
MSCI World ex UK	Developed (ex UK) Equities	37.08%	12.81%	30.12%	22.61%	17.71%	13.03%	20.81%	13.86%	5.48%	32.63%	13.10%	3.82%	23.14%	14.65%
MSCI EM	EM Equities	28.88%	6.26%	15.35%	15.62%	15.57%	12.30%	8.19%	12.58%	1.94%	31.58%	11.81%	0.72%	19.17%	13.80%
FTSE Actuaries UK Conventional Gilts All Stocks	Gilts	8.45%	5.53%	14.77%	14.95%	12.28%	10.80%	5.23%	12.52%	0.98%	28.95%	7.31%	0.57%	15.41%	11.01%
FTSE Actuaries UK Index-Linked All Stocks	Index-Linked Gilts	7.28%	3.72%	14.52%	14.51%	5.88%	2.92%	4.74%	11.25%	0.57%	24.33%	5.16%	-0.28%	14.61%	9.30%
ICE BoA ML Sterling Corporate	Corporate Bonds	6.02%	-9.10%	14.46%	8.90%	3.43%	2.70%	1.76%	5.89%	0.57%	22.27%	4.36%	-0.92%	11.42%	8.27%
HFRX Global Hedge Fund	Global Hedge Funds	5.32%	-16.67%	6.45%	8.88%	0.87%	0.88%	0.54%	5.61%	0.53%	16.75%	2.34%	-2.30%	6.90%	3.52%
IA Direct Property Sector Average	UK Property	5.27%	-18.97%	2.50%	8.76%	-3.46%	0.85%	0.51%	3.90%	-0.97%	11.90%	1.94%	-2.64%	6.42%	0.30%
Brent Crude	Oil	2.47%	-29.93%	1.21%	8.50%	-5.16%	0.83%	-3.94%	1.18%	-6.95%	10.10%	1.83%	-9.27%	5.55%	-3.35%
LBMA Gold Bullion Troy Ounce	Gold	0.56%	-32.44%	0.96%	7.20%	-8.19%	0.63%	-4.41%	0.54%	-9.99%	1.30%	0.36%	-9.47%	0.81%	-9.82%
LIBOR GBP 3 Months	Cash	-6.73%	-35.39%	-1.16%	0.70%	-17.82%	-1.03%	-29.37%	-44.36%	-42.42%	0.50%	-3.18%	-9.60%	0.04%	-33.66%
	Difference between best & worst	54.48%	78.14%	60.09%	32.12%	37.76%	16.81%	54.32%	63.32%	51.02%	49.05%	28.58%	14.24%	30.29%	52.97%
	Average annual return	12.94%	-6.49%	14.37%	13.04%	3.73%	5.43%	2.64%	3.81%	-3.79%	20.90%	6.40%	-2.25%	12.16%	3.03%

Past performance is not a guide to future performance and should not be relied on.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Source: Financial Express Analytics as at 31 December 2020. Total returns in GBP.

Time, not timing

Be in it for the long haul

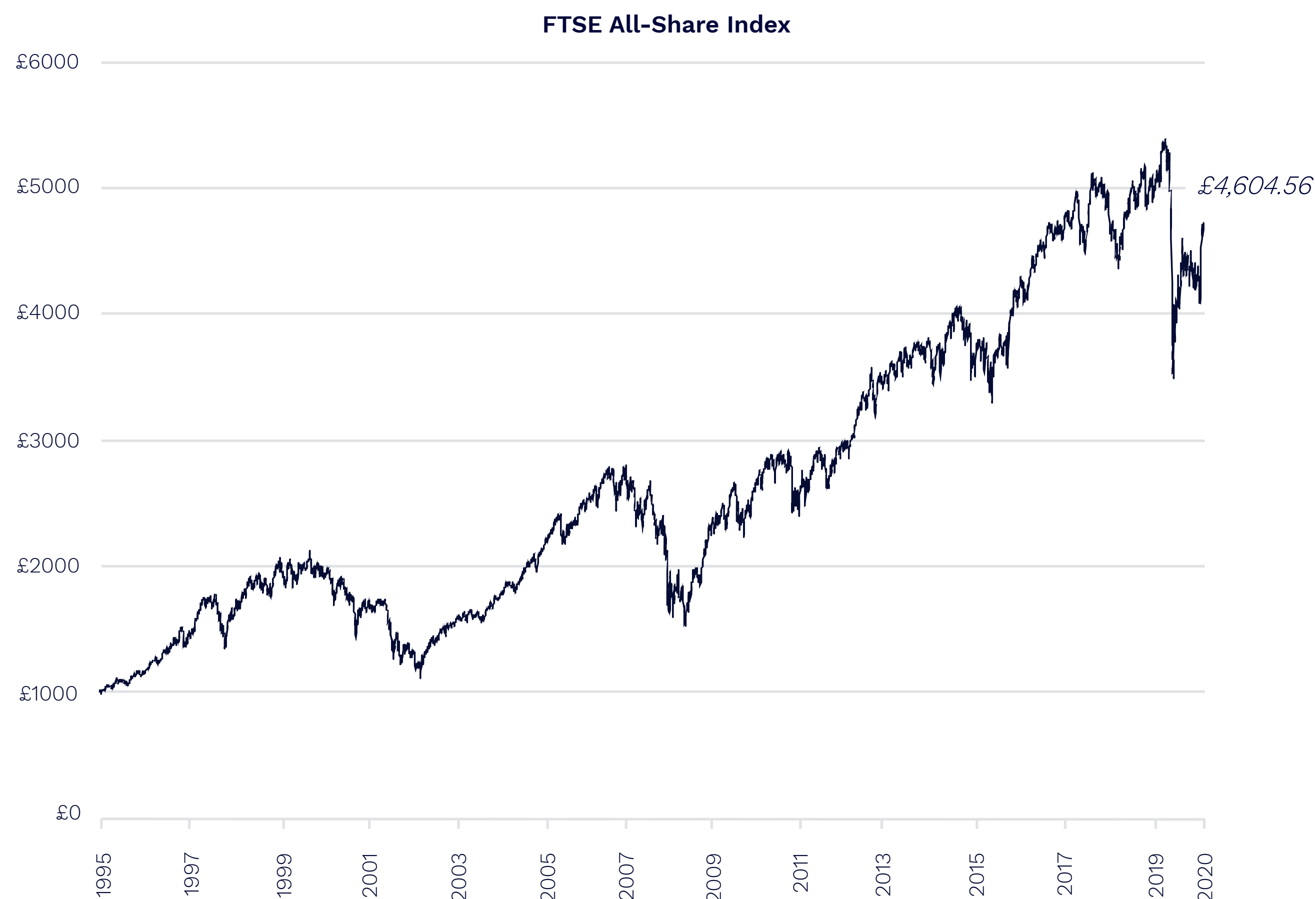
We've looked at some of your investment options – their good & bad points and what they can offer your investment portfolio. For all their differences they do share one thing in common – it can take time for them to maximise their potential.

It's time, not timing, that really matters in the world of investment.

Although the timing of buying and selling investments can be important, over a longer period, short-term price movements should have less effect on your investment and it should have more time to grow.

The chart shows how an investment of £1,000

in the UK stock market would have grown into over £4,600 over the last 25 years. The progress isn't totally smooth however with markets suffering setbacks from time to time – the Russian Debt Crisis in 1998, the 2008 Credit Crunch and more recently the Covid-19 pandemic among the most notable.



Source: Bloomberg as at 30 November 2020. Net income reinvested.

Time, not timing (continued)

Staying invested

Although such episodes can be extreme (and painful) it makes sense to look beyond the here and now and focus instead on the timescale that really matters – the long-term one.

After each drop, equities have soon gone on to resume an upward trend and maintain their historic outperformance of other asset classes. However, it should be remembered that past performance is not a guide to future performance.

Can you time the market for success?

The fact that markets can experience sharp falls and periods of uncertainty means you should really be willing to invest for a minimum of five years. But what if it were possible to time your investments to harness the markets' ups and downs for your benefit – selling at the peaks and buying at the lows?

Indeed, the latter can have a huge effect – just look at the table to see how the average annual returns of some of the world's stock markets can be affected when you strip out some of the top.

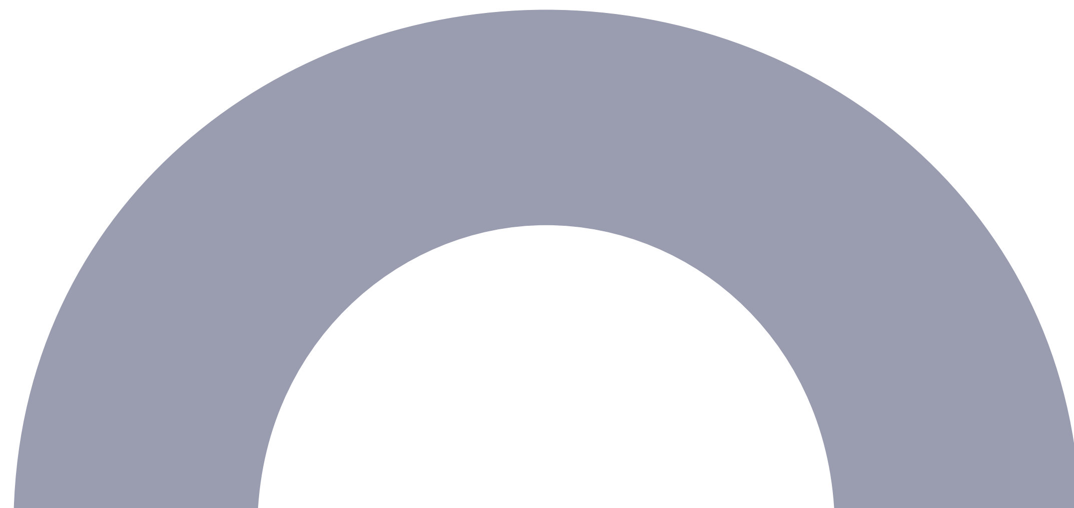
Forecasting such events is nigh on impossible and bad news for those investing their cash just before a downturn. Fortunately, given time, financial markets have proven capable of shrugging off short-term falls – and whilst returns in some years are much higher or lower, the average annual gain made by the UK stock market is around 5.64%.

Average Annual Returns over 15 years - effect of missing best days...

Index	Stayed fully invested	Best 10 days missed	Best 20 days missed	Best 30 days missed
FTSE All-Share	5.42%	0.97%	-1.75%	-3.93%
S&P 500	11.53%	5.67%	1.84%	-0.88%
DAX 30	8.43%	2.99%	-0.45%	-3.62%
CAC 40	6.75%	2.35%	-0.82%	-3.46%
Hang Seng	9.38%	3.44%	-0.03%	-2.87%

The table above reflects compound annual growth rates of select global indices over 15 years. It also includes, by comparison, compound growth rates if you were invested in each index over the best 10, 20 and 30 days missed. All returns based in sterling.

Source: Bloomberg as at 30 November 2020



Your investment is protected by a robust governance process

1. Omnis Investment Team
The Omnis Investment Team looks after your money and sits at the heart of our investment proposition.

2. Weekly Analyst Committee
The Analyst Committee meets weekly and is the Investment Team's chance to discuss the allocations to the various Omnis funds and market activity, as well as upcoming economic events.

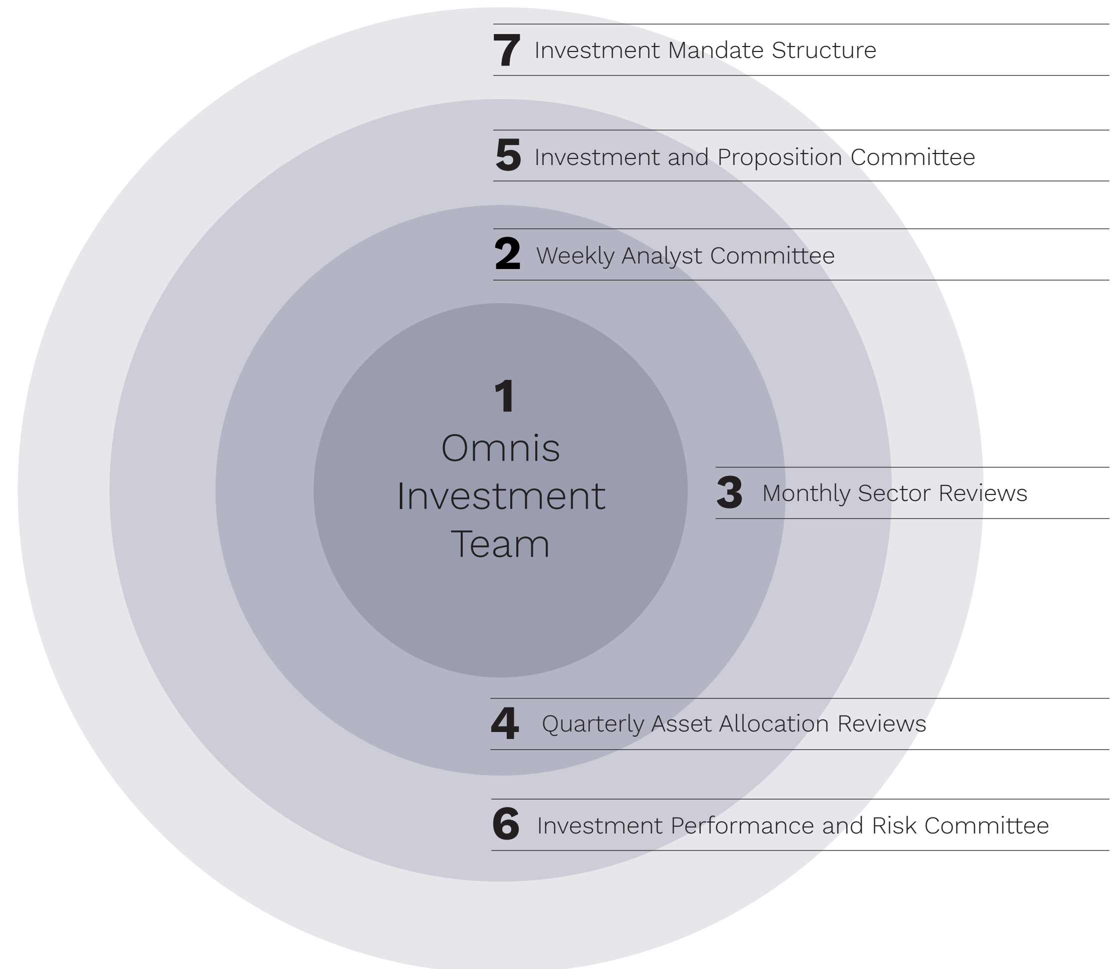
3. Monthly Sector Reviews
A Monthly Sector Review puts each of the investment classes that we include in our portfolios under constant scrutiny.

4. Quarterly Asset Allocation Reviews
The Quarterly Asset Allocation Review looks at all the investment classes in detail to assess their long-term prospects, with these views then translated into fund selection for our portfolios.

5. Investment and Proposition Committee
The Investment and Proposition Committee meets at least monthly and is responsible for setting our asset allocation policy. It is also responsible for forming our list of recommended funds. Membership is made up of senior Management from Openwork & Omnis, as well as independent insight from global leading investment consultant Mercer.

6. Investment Performance and Risk Committee
The Investment Performance and Risk Committee is responsible for selecting and monitoring the managers of our Omnis range of funds.

7. Investment Mandate Structure
The Investment Mandate Structure is the strict set of parameters within which the Investment Team can operate to ensure you are not exposed to excess or unnecessary risk.



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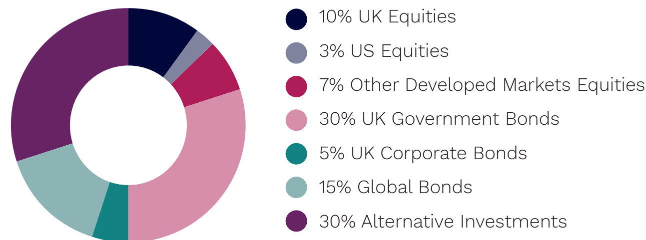
4. The Openwork solutions

Openwork Investment Solutions

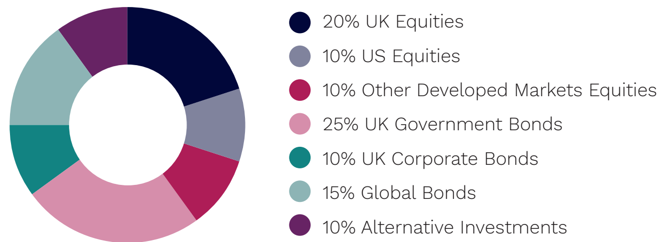
Openwork Graphene Model Portfolios

The Openwork Graphene Model Portfolios represent one of our most powerful investment solutions, offering the choice of six portfolios, spread across different asset classes helping to reduce the risk of loss at any given time.

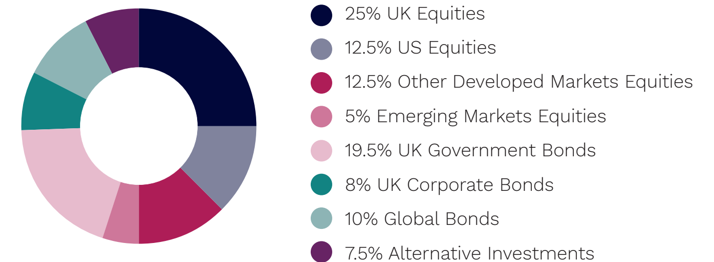
Defensive



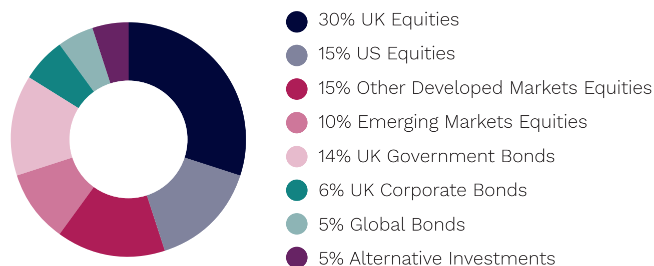
Cautious



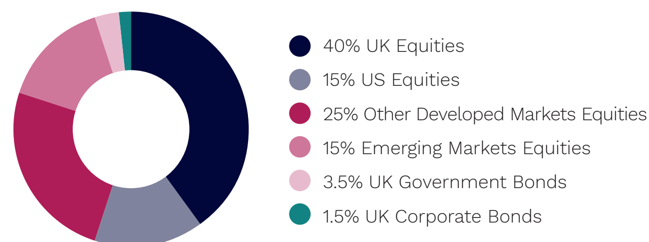
Moderately Cautious



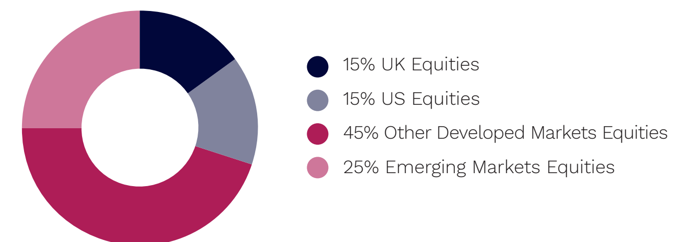
Balanced



Adventurous



Speculative



As each single investment represents just a percentage of the total assets, any loss has a relatively reduced impact on total performance.

These ‘strategic asset allocations’ are tailored to fit the risk and reward expectations of different types of investor as shown in these charts.

Openwork Investment Solutions

The Omnis Managed Portfolio Service

The Omnis Managed Portfolio Service (OMPS) offers investors a choice of five separate risk-graded portfolios that provide a straightforward route for achieving a well-diversified and actively managed investment strategy. OMPS aims to keep your investments aligned to your financial goals and deliver the right outcomes for you on a long-term basis (which we define as at least 5 years). The Omnis investment team constantly monitors the performance and fine tunes the composition of the five model portfolios – Defensive, Cautious, Moderately Cautious, Balanced and Adventurous – built around your attitude to risk.

Each portfolio invests in various Omnis funds that are run by some of the most well-known asset managers in the business. These funds are run by expert managers who are free to select the individual investments they think will help them to outperform their segment of the market.

Strategic asset allocation

Each of the five portfolios has what we call a 'strategic asset allocation'. This is the framework for the different asset types held in each portfolio.

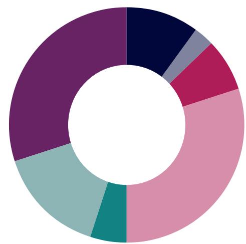
The strategic asset allocation of each portfolio can be adjusted by the investment team to reflect market conditions. However, as the name suggests, these allocations are designed to be relatively stable. Day-to-day, the investment team can increase or decrease these asset allocations to fine-tune each portfolio. It is through making these regular adjustments that additional growth may be achieved.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Openwork Investment Solutions

Indicative Strategic Asset Allocations

Defensive

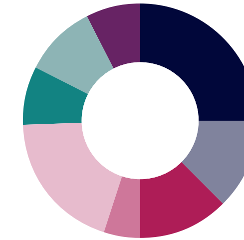


- 10% UK Equities
- 3% US Equities
- 7% Other Developed Markets Equities
- 30% UK Government Bonds
- 5% UK Corporate Bonds
- 15% Global Bonds
- 30% Alternative Investments

Cautious

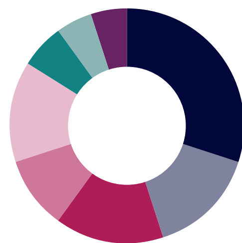
- 20% UK Equities
- 10% US Equities
- 10% Other Developed Markets Equities
- 25% UK Government Bonds
- 10% UK Corporate Bonds
- 15% Global Bonds
- 10% Alternative Investments

Moderately Cautious



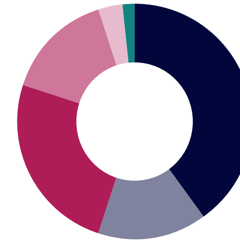
- 25% UK Equities
- 12.5% US Equities
- 12.5% Other Developed Markets Equities
- 5% Emerging Markets Equities
- 19.5% UK Government Bonds
- 8% UK Corporate Bonds
- 10% Global Bonds
- 7.5% Alternative Investments

Balanced



- 30% UK Equities
- 15% US Equities
- 15% Other Developed Markets Equities
- 10% Emerging Markets Equities
- 14% UK Government Bonds
- 6% UK Corporate Bonds
- 5% Global Bonds
- 5% Alternative Investments

Adventurous



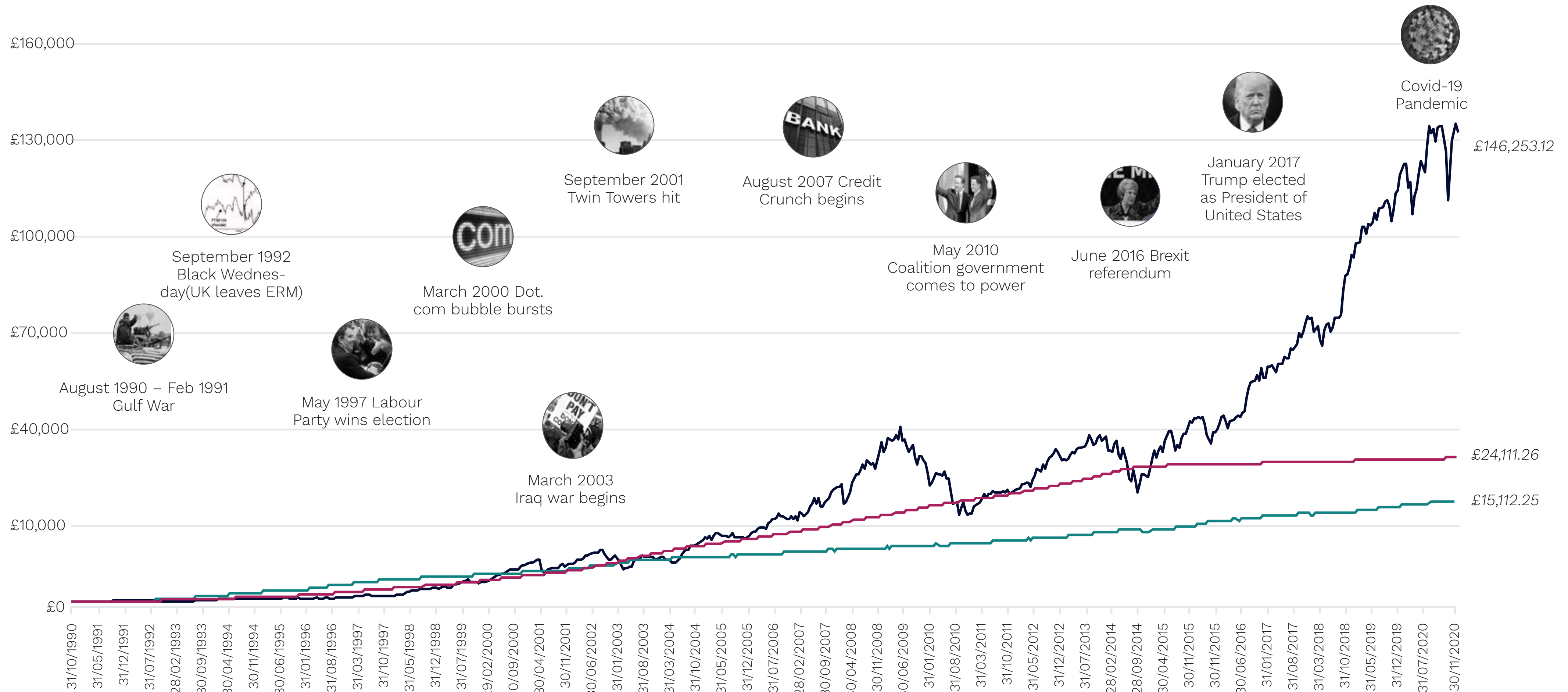
- 40% UK Equities
- 15% US Equities
- 25% Other Developed Markets Equities
- 15% Emerging Markets Equities
- 3.5% UK Government Bonds
- 1.5% UK Corporate Bonds

Long-term performance

Equities vs cash

Despite well publicised market crashes, over time investing in equities has been proven to significantly out-perform leaving money as cash savings.

This chart compares the growth in value of £1,000 invested in global equities to leaving the money in a cash deposit account over the last 30 years.



Past performance is not a guide to future performance and should not be relied on.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

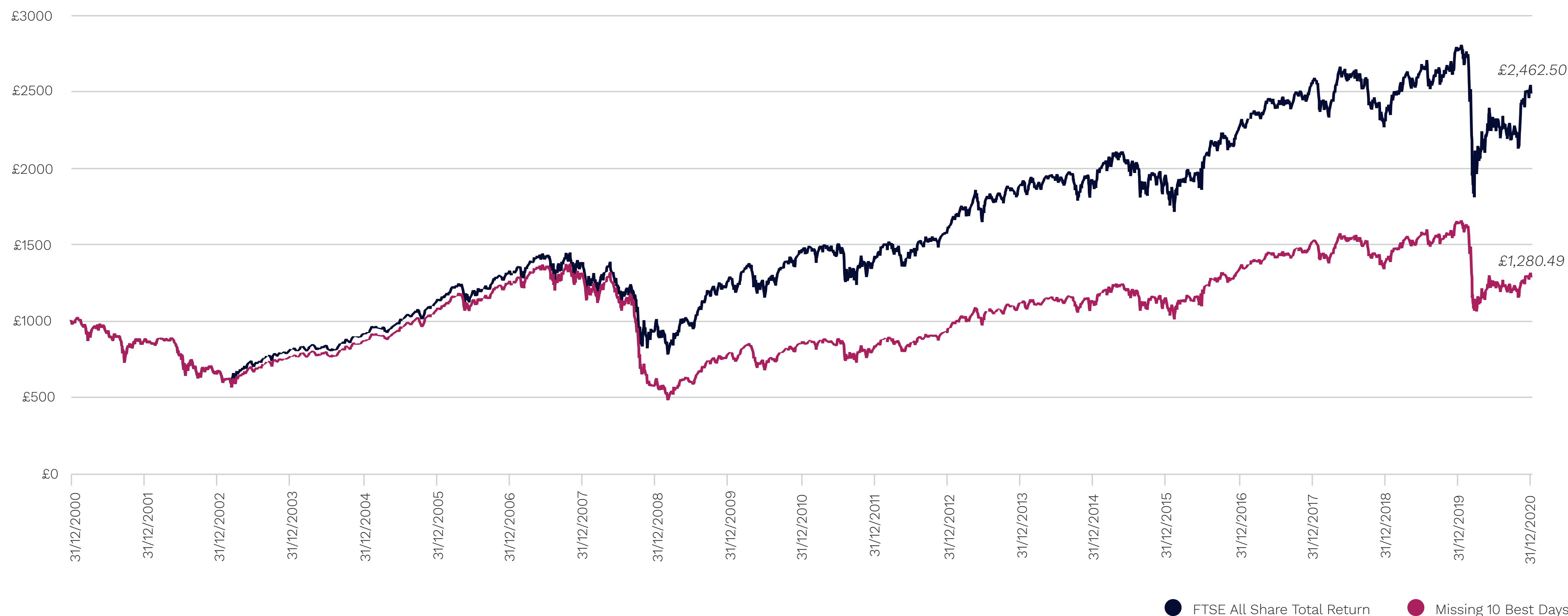
This graph shows performance from 31 October 1990 to 30 November 2020.
Source: Financial Express 30 November 2020.

OW3126 Exp: 31/03/2021

Can you time it for success?

Average annual returns over 20 years – effect of missing best days...

The fact that markets can have sharp dips and periods of uncertainty means you should really be willing to invest for a minimum of five years. But what if it were possible to time your investments to harness the market's ups and downs for your benefit – selling at the peaks and buying at the lows? Indeed, the latter can have a huge effect – the chart below shows how the returns on £1,000 invested in some of the world's stock markets can be affected when you strip out some of the top performing days.



Past performance is not a guide to future performance and should not be relied on.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Source: Bloomberg 31 December 2020.

OW3124 Exp: 31/03/2021

Drip your way to success

Pound cost averaging

One way you can limit your exposure to the impact of one-off events (and potentially profit from the opportunities they present) is to make smaller payments on a regular basis. Investing in such a way is not only more affordable but it helps smooth out the market's peaks and troughs although there's no guarantee of this.

In this example, the graph here demonstrates the benefits of adopting a regular savings approach, comparing the historic outcomes of investment in the stock market compared to a cash deposit account.

Whilst it should always be remembered that, **the value of your investment can go up as well as down and you may not get back the full amount invested**, the graph clearly illustrates the benefits of regular saving (drip feeding) in the stock market and doing so over the long term.

Source: Financial Express 31 December 2020.
Basis for Calculation: Total Return - Net Income Re-Invested.

OW3125 Exp: 31/03/2021

The importance of dividends

Long-term performance

Reinvesting dividends is one of the most powerful tools available for boosting investment returns over time. Investors over the last 20 years would have seen a noticeable difference in the value of their investments by doing so.

The chart opposite shows how £1,000 invested in December 2000 would be valued based on the share price alone, compared with performance that takes into account dividend reinvestment, where the same £1000 investment would be worth double the amount.

Past performance is not a guide to future performance and should not be relied on.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Source: Bloomberg 31 December 2020.

OW3127 Exp: 31/03/2021

Overcoming inflation

With inflation having the potential to erode the real value of your savings it makes sense to consider the other options that are available – something we focus on later. In the meantime, a quick glance at perhaps the most obvious alternative – the stock market – highlights some of the potential those sticking with cash will be foregoing.

The chart shows the returns on a £5,000 investment in an average mixed asset investment fund compared to those in a cash deposit account.

This higher potential isn't without its pitfalls and stock market investment involves a higher acceptance of risk and a realisation that **the value of your investment can go up as well as down and you may not get back the full amount invested**. And with the potential for short term fluctuations it is also necessary to invest with a longer-term timescale in mind. Over the long haul however, shares have proven to generate higher returns.

Source: Financial Express 31 December 2020.
Basis for Calculation: Total Return - Net Income Re-Invested.

OW3122 Exp: 31/03/2021

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