INVESTMENT PRINCIPLES

Openwork

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

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

The pack is split into three sections:

1. A summary of the four investment principles:
   – Risk vs Reward;
   – Diversification;
   – Long-term performance;
   – Strong process & governance
2. A simplified introduction to the four core asset classes
3. A range of charts which reinforces the four investment principles

Investment principles

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Attitude to risk

Your attitude to risk will determine the blend of assets we recommend that you invest in

We build investment solutions that ensure you are never exposed to more risk than you are comfortable with

Strong governance

Governance & Process

We use our past experience and a robust governance process to monitor and control every investment decision made

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Diversified portfolios

When investing, it's important not to put all your eggs in one basket

We take a global, multi-asset view to building investment portfolios

Long term performance

Time in the market, not timing the market

In our experience, taking a longer-term approach to investing delivers better returns over time.

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.

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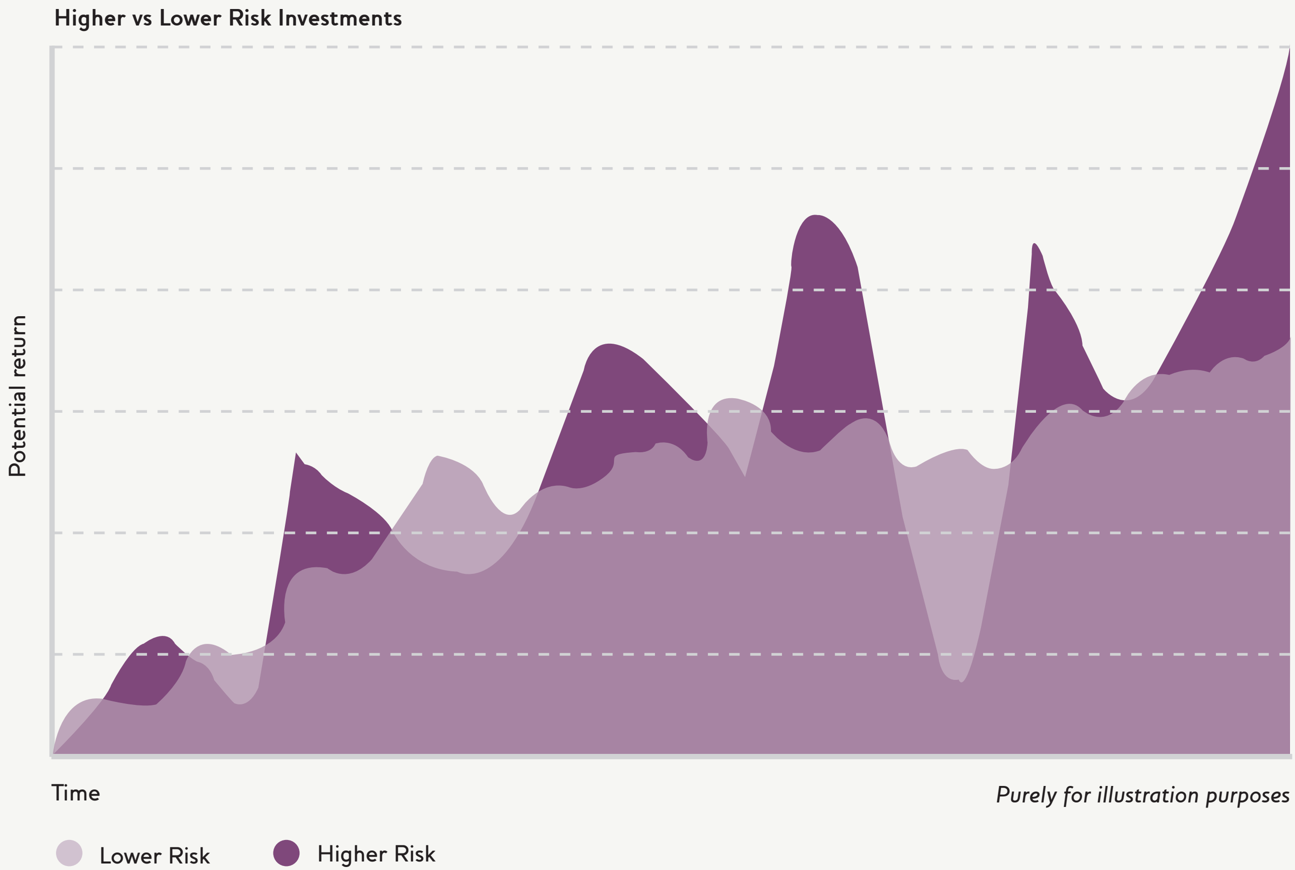
The more risk you are prepared to take with your investments the better your potential returns.

Deciding what the right balance between investment risk and reward should be, will be unique to you and made up of many factors, not least of which is what your future plans are for the money you are investing. We can help you navigate through this decison-making process so your investment objectives are clear and you are not exposed to more investment risk than you are comfortable with.



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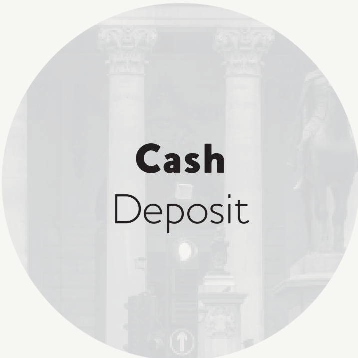
The four main asset classes

The investment landscape can be broadly split into four main asset classes, cash, bonds, equities and alternatives, which we shall explore in more detail here.



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An introduction to investing
Cash

- The Bank of England (BoE) base rate determines the rate payable by the banks and building societies when they borrow money from BoE. By keeping the rate low, this encourages banks and building societies to offer cheaper borrowing to customers.

- Banks, building societies borrow from the BoE at wholesale rates then offer savings rates to customers for short term deposits or fixed term returns.

- Building societies then lend to borrowers at a higher rate and offer savers a lower rate.

- Your capital (money) is guaranteed, however, the growth potential is low and there's an inflationary risk (this is the chance that the cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation)

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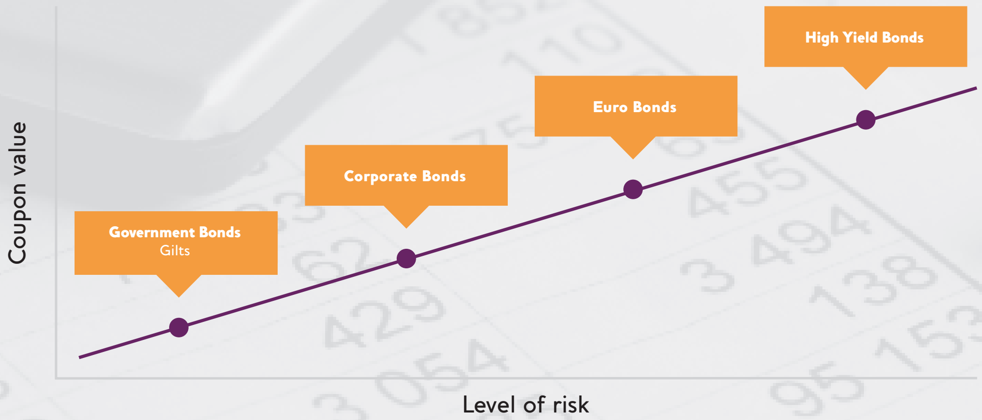
Cash Bonds Equities Alternatives

- Sometimes referred to as fixed income, bonds are an investment in debt (such as loans or mortgages). They can be traded by fund managers, just like any other security.
- The issuer of the bond must state the interest rate, or coupon, that will be paid and a maturity date at which the loaned funds (known as the principal) must be returned.



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- **For government bonds** (also known as gilts), a major developed country will have a prime or high-grade credit rating and will therefore be likely to pay a lower yield (interest rate). In turn, for countries with a lower credit rating these will be likely to pay a higher yield.
- Similarly for **corporate bonds**, more prominent and profitable companies get a higher credit rating, as there is less risk the loan won't be repaid.

Take a conventional government bond (gilt), for example, and a holding of £1,000 nominal of 3.75% Treasury Stock 2025:

- The £1,000 nominal is the amount of the gilt.
- The 3.75% tells you how much income you will receive each year. It is called the "coupon" and is applied to your nominal value to determine the size of your interest payment or "dividend".
- In Practice – With interest rates at 0.25%, a 3.75% return looks attractive and so the price will be higher (gilt price expensive/ yield low) than the £1,000 nominal value. However, if interest rates were 4%, the coupon of 3.75% would look unattractive and so the price would fall below £1,000 (gilt price cheap/yield high) – However if you bought the bond at outset and held to redemption you are guaranteed to get your capital back and will have received the coupon each and every year.

- An equity (a share in a company) is a security representing a stake of ownership of a company, however small that may be. This will be listed on a stock market index, such as the FTSE 100 in the UK, or the S&P 500 in the US.

There are two types of equity market – the primary market and the secondary market.

- The **primary market** consists of companies which are offering shares for purchase for the first time (known as an Initial Public Offering or IPO) and companies which have already made shares available to the public and are now seeking to raise additional funds by issuing further shares.

- The **secondary market** consists of shares in companies that can be traded between buyers and sellers on an ongoing basis. Each company's share price rises and falls in response to the demand from investors and so reflects views on the company's performance and future potential. If investors think a company's prospects look good, there will be more demand for their shares and so their price will go up. Conversely, if investors think a company's future profitability is uncertain, they may seek to sell their shares and through the law of supply and demand, the share price will drop. But whilst share prices rise and fall in response to these rational judgements on an individual company's prospects, they can also be influenced by a consensus view that can build in equity markets, driving share prices higher or lower across whole industry sectors or regions of the world.

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Cash Bonds **Equities** Alternatives

- Historically, investing in equities has provided the best long-term growth for investors, although it is important to remember that past performance should not be used as a guide to future performance. However, investing in individual companies carries more risk and requires more knowledge to make the right investment choices. For this reason, it makes sense to have an investment portfolio which is **diversified** – in other words, spread across several different sectors and invested in many different companies.

- An effective way to achieve this diversification is to invest in **funds** rather than individual company shares. In a fund, your money is invested alongside many other investors across many individual companies, so you can achieve a higher level of diversification at a lower cost.

An introduction to investing

Alternatives

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- Used as a diversifier away from traditional bonds and equities, so-called alternatives can take on many different forms, including **commercial property, infrastructure investments** and **natural resources**.
- Property funds are shares in listed property companies making them more liquid (easier to buy and sell) than owning the actual bricks and mortar.
- 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.

Attitude to risk

Balancing risk and reward

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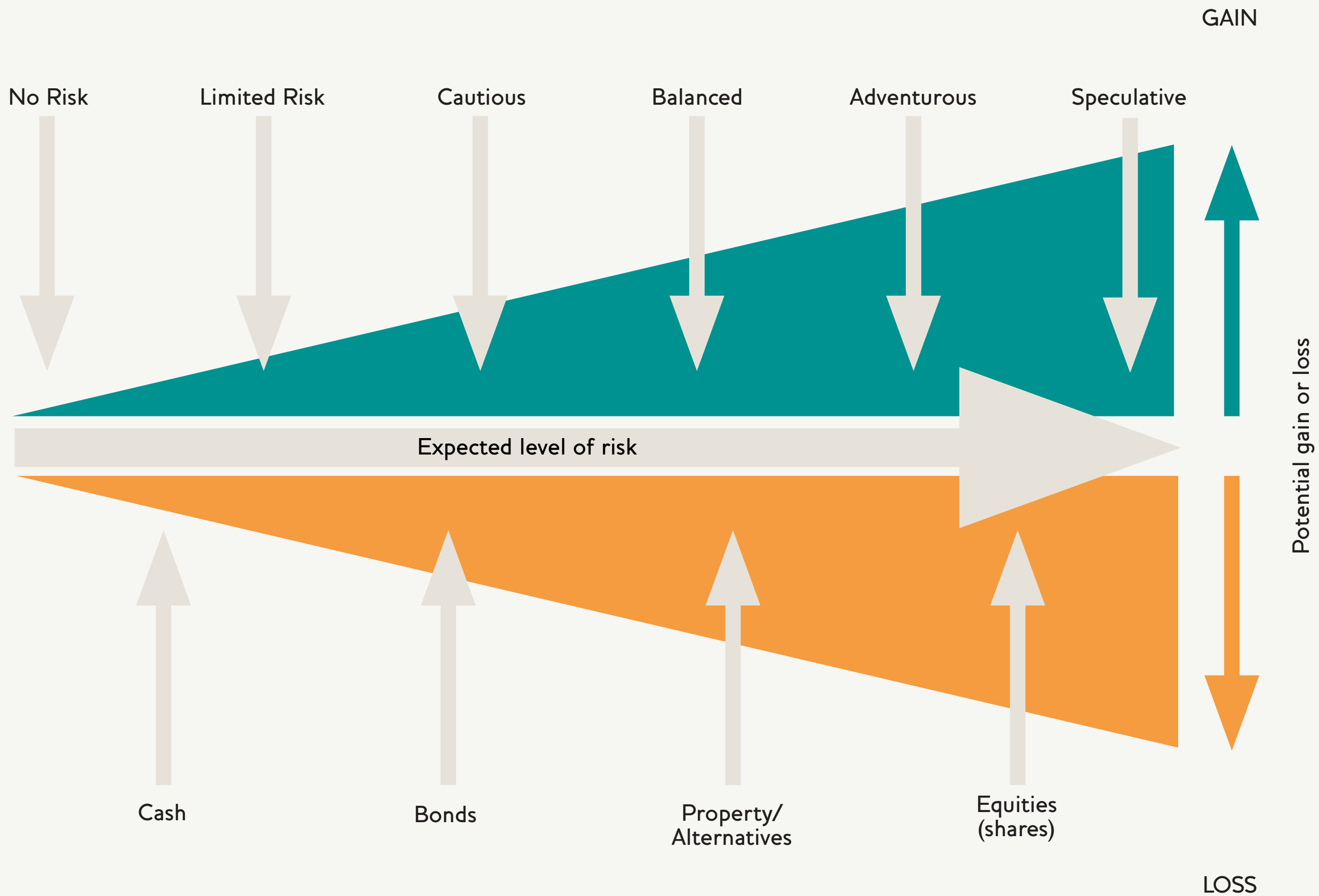
The more adventurous the investment choices – the greater the potential for higher long-term returns, but with this comes the risk of greater short-term losses. Investors whose attitude to risk and capacity for loss are more conservative must sacrifice some of the potential long-term performance upside to reduce the risk of short-term losses.



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Diversified portfolios

What are we trying to achieve?

You may have heard about the idea of having a diversified portfolio, but what does it actually mean? Yes, it means not putting all your eggs in one basket. But what are you trying to achieve when you spread your investment across many different asset classes?

This chart illustrates what might be expected in terms of risk-vs-return, with no diversification.

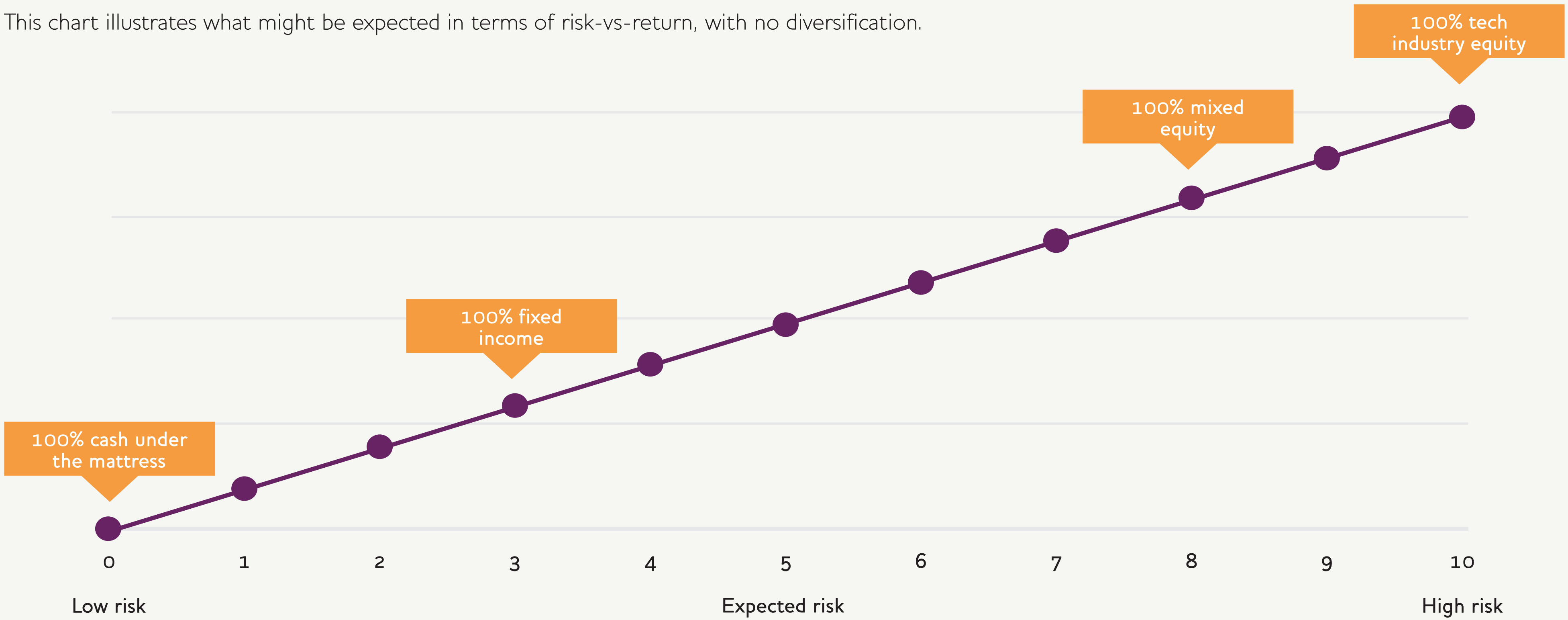

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Chart is figurative only.

Diversified portfolios

What are we trying to achieve?

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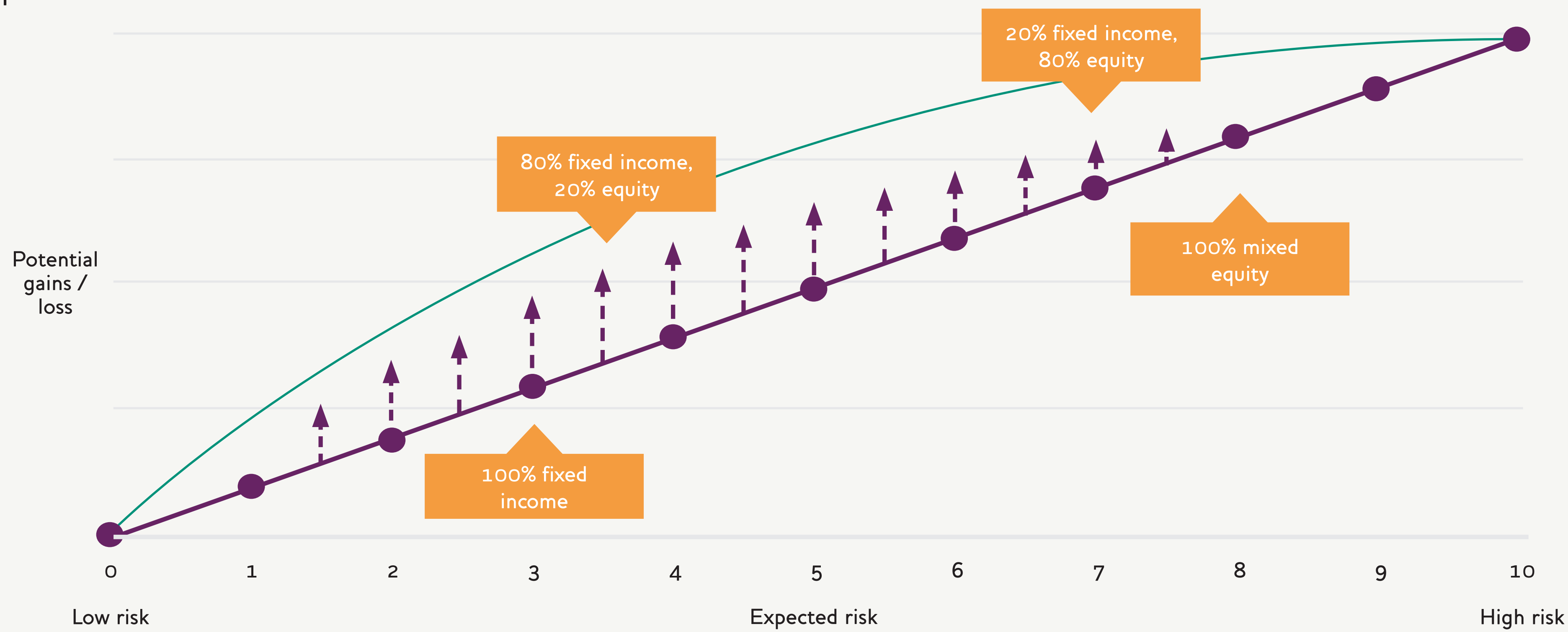
Effective diversification means a higher expected return for a given level of expected risk. This is achieved by combining assets which can reasonably be expected to behave differently over time, as illustrated by the green performance line below.



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Diversified portfolios

Look at the evidence

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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 are performing less well, others in your portfolio are likely to be doing better and so will help protect the value of your overall investment. This chart shows how different assets 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.

Asset class performance is listed from best to worst for each year

Market Indices *(used for the performance data of each asset class)*	**Asset Classes**	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
FTSE All Share	UK Equities	47.75%	42.75%	58.93%	32.82%	19.94%	15.78%	24.95%	19.46%	13.89%	49.55%	25.40%	7.16%
MSCI World ex UK	Developed (ex UK) Equities	37.08%	12.81%	30.12%	22.61%	17.71%	13.03%	20.81%	18.96%	5.48%	32.63%	13.10%	4.64%
MSCI EM	EM Equities	28.88%	6.26%	15.35%	15.62%	15.57%	12.30%	11.02%	13.86%	1.94%	31.58%	11.81%	0.72%
FTSE Actuaries UK Conventional Gilts All Stocks	Gilts	8.45%	5.53%	14.77%	14.95%	12.28%	10.80%	5.23%	12.58%	0.98%	28.95%	11.24%	0.57%
FTSE Actuaries UK Index-Linked All Stocks	Index-Linked Gilts	7.28%	3.72%	14.52%	14.71%	8.11%	2.92%	4.74%	12.52%	0.57%	24.33%	5.16%	-0.28%
ICE BoA ML Sterling Corporate	Corporate Bonds	6.02%	-9.10%	14.46%	14.51%	5.88%	2.70%	1.76%	5.89%	0.57%	22.27%	4.36%	-0.92%
HFRX Global Hedge Fund	Global Hedge Funds	5.32%	-16.67%	6.45%	8.88%	0.87%	2.31%	0.54%	5.61%	0.53%	16.75%	2.34%	-2.30%
MSCI UK Monthly Property	UK Property	5.27%	-22.63%	1.89%	8.76%	-3.46%	0.88%	0.51%	3.90%	-0.97%	11.90%	1.94%	-2.64%
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%
LBMA Gold Bullion Troy Ounce	Gold	0.56%	-32.44%	0.96%	7.20%	-8.19%	0.63%	-4.41%	0.54%	-9.99%	2.63%	0.36%	-9.47%
LIBOR GBP 3 Months	Cash	-5.36%	-35.39%	-1.16%	0.70%	-17.82%	-1.03%	-29.37%	-44.36%	-42.42%	0.50%	-3.18%	-9.60%
	Difference between best & worst	53.11%	78.14%	60.09%	32.12%	37.76%	16.81%	54.32%	63.82%	56.31%	49.05%	28.58%	16.76%
	Average annual return	13.07%	-6.83%	14.32%	13.57%	4.16%	5.56%	2.89%	4.56%	-3.31%	21.02%	6.76%	-1.94%

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Source: Financial Express Analytics as at 31 December 2018. Total returns in GBP.

Building your investment portfolio

Putting it all into practice

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The Omnis Managed Portfolio Service and Openwork Graphene Model Portfolios spread your investments across different asset classes to help reduce the risk of loss in your portfolio.

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.

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 Funds

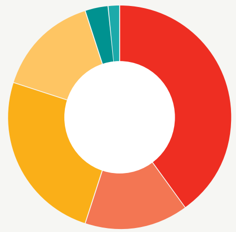
Moderately Cautious

- 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 Funds

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 Funds

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

Taking the long view

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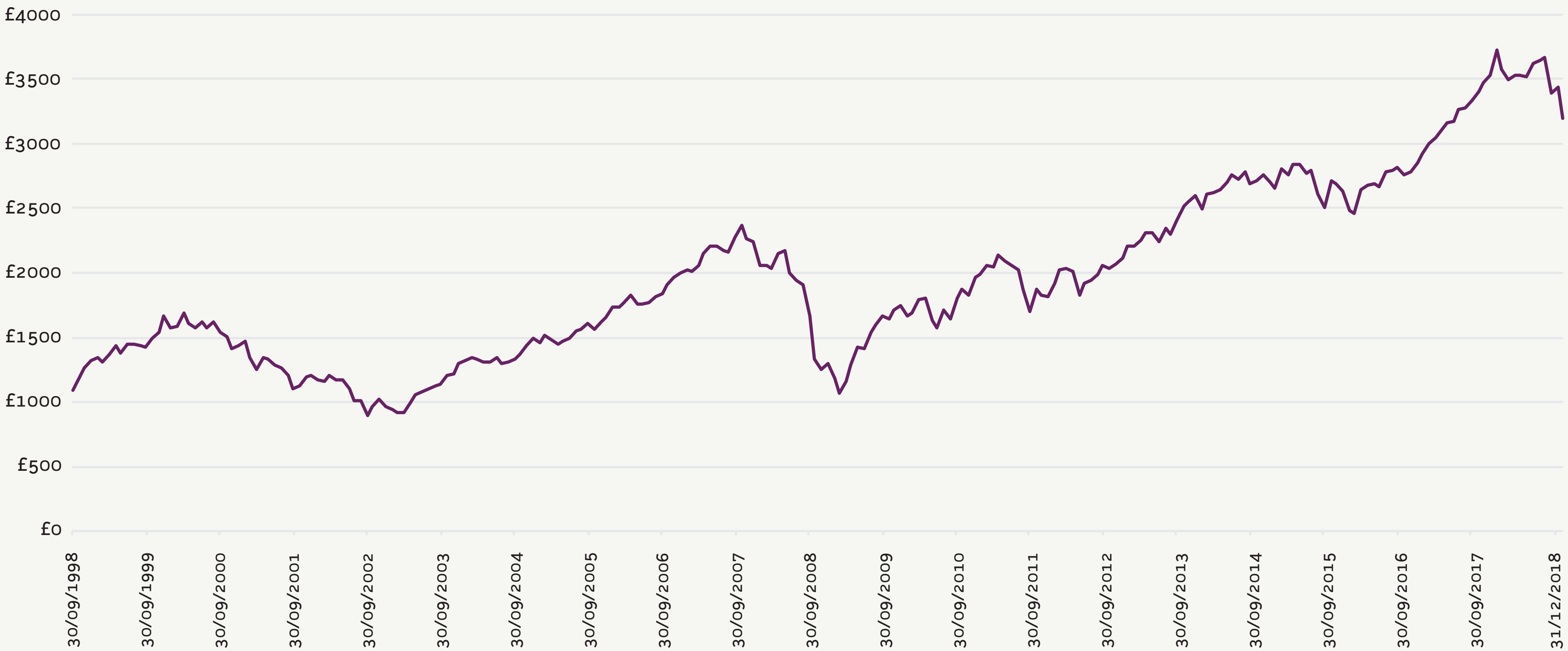
Investors who have held global equities for the past 20 years have had to navigate the bursting of the tech bubble, the financial crisis, and numerous other market corrections. Yet, £1,000 invested in September 1998 would still be worth over £3,000 20 years later.



MSCI All World Total Return. £1,000 invested 30/9/98 to 31/12/18.

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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 38 years.

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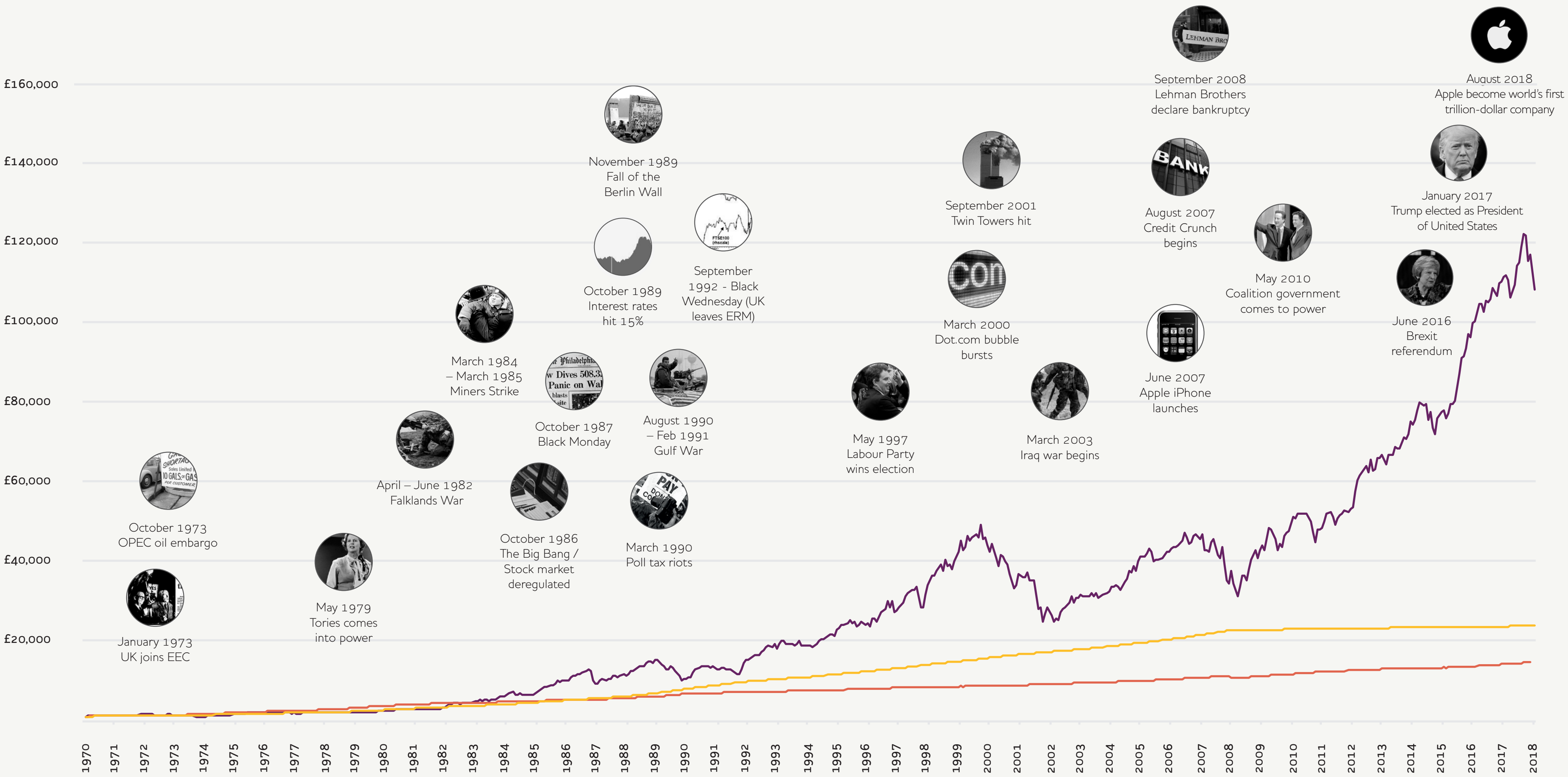

This graph shows performance from 31 December 1970 to 31 December 2018. Source: Financial Express 31 December 2018.

MSCI World Total Return GBP · UK Base Rate Total Return Index · UK Retail Price Index

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Long-term performance

Stock markets rise and fall in the short-term — its normal

All markets experience volatility (rises and falls) at different times and to different levels. This is where investment growth comes from.

This chart shows how the UK equity market has performed since the 1960's and you can see both the periods of growth and the level of growth have far exceeded the periods when the market has fallen in value.

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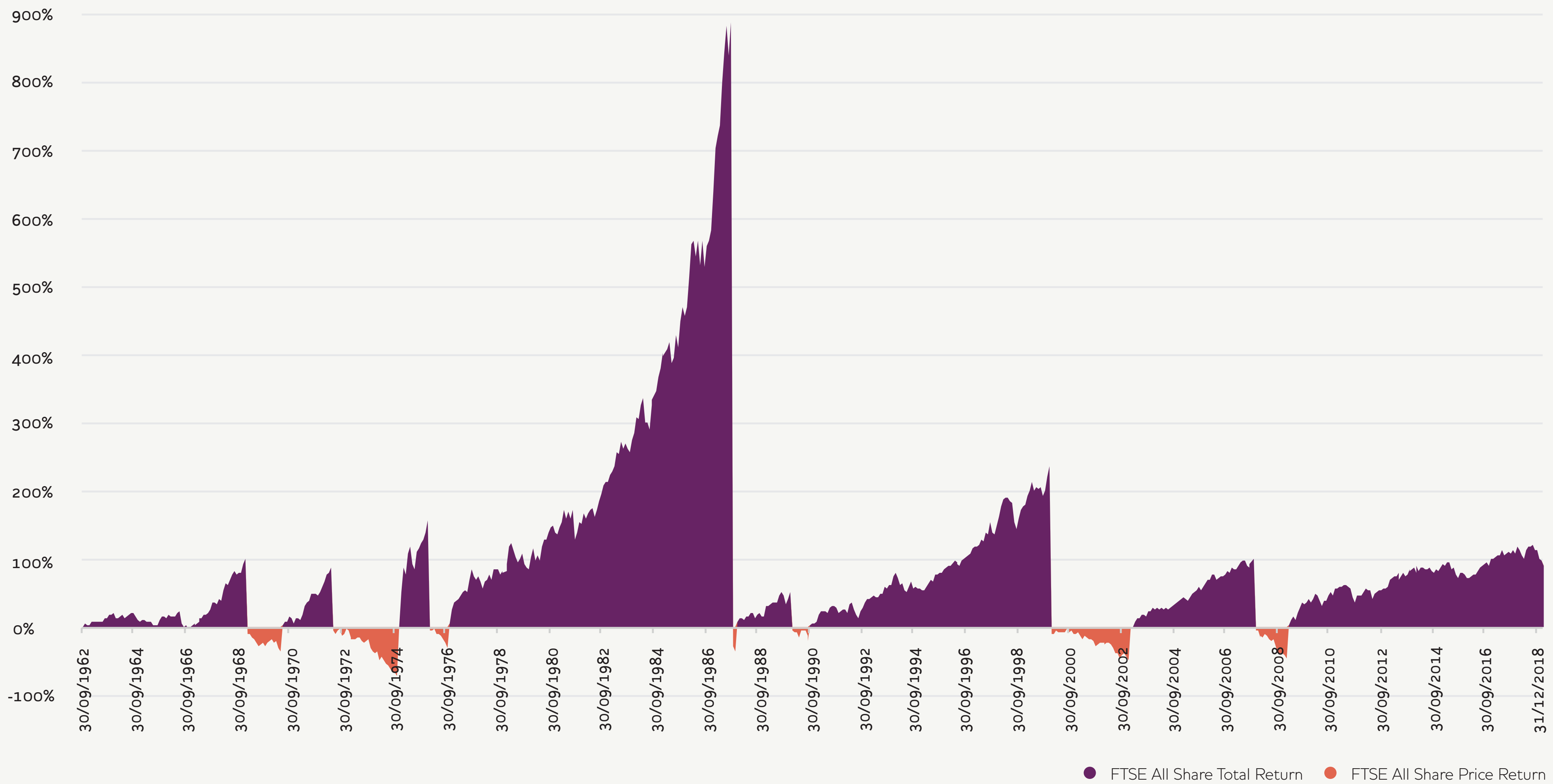

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Long-term performance

The power of reinvesting dividends

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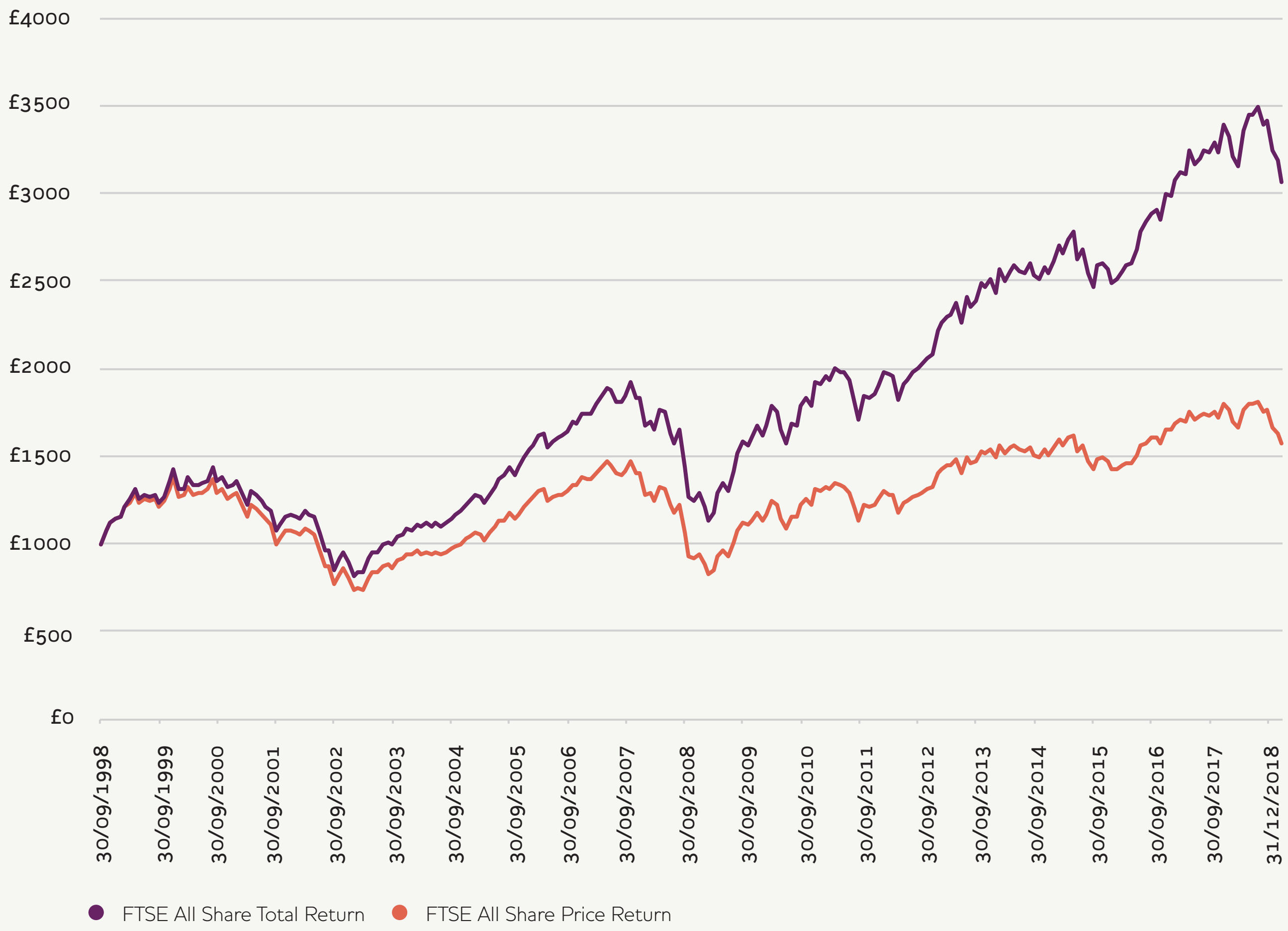
Reinvesting dividends is one of the most powerful tools available for boosting investment returns over time. Investors over the last 20 years would have seen a big difference in the value of their investments by doing so.

The chart opposite shows how £1000 invested in September 1998 would have grown to £1,567 by December 2018. But when you add in the effects of "compounding" through reinvesting all dividends, the same £1000 investment would be worth £3,067.



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Your investment is protected by a robust governance process

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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 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.