

Guide to Investment Risk

THIS IS AN IMPORTANT DOCUMENT. PLEASE READ IT AND KEEP FOR FUTURE REFERENCE.

Introduction to risk

Risk is another word for uncertainty or unpredictability. Most investments carry an element of uncertainty or unpredictability as it can be difficult to know what your returns will be. As a general rule, the less risk your investment carries, the lower potential return you can expect to make; whereas the higher the risk, the greater the potential return. However, this higher potential carries the risk of greater fluctuations and potential losses. Risk exists whenever you invest your money; even keeping money in the bank or building society carries the risk of returns not keeping pace with inflation.

Your attitude to risk

When deciding which type of investment to choose, it is important to consider your own attitude to risk. Attitude to risk is a personal decision which will be affected by your own circumstances, attitudes and investment objectives.

When considering risk there are different ways to think about it. These include:

- Your financial capacity to deal with potential loss
- Your willingness to take risk
- Your investment timeframe.

A financial adviser can help you establish your attitude to investment risk. It is important to find an adviser that specialises in investments and to make sure that they go through the process of assessing your 'attitude to risk' thoroughly.

Types of investment risk

The main types of risk associated with investments are:

- The risk that the value of your investments will fall instead of rise and you may not get back your original investment
- The growth you achieve from your investments will be eroded by the impact of inflation

- Your investment will not perform well enough to generate the income you need in the future
- Past performance is not a guide to future performance
- If you exercise your cancellation rights, transfer out, or exit, you may not (even without a fall in the price of the units) get back the amount originally invested if:
 - there was an initial charge
 - tax has been deducted
- If you exercise your cancellation rights within the 30 day period we will return your money less any fall in the value in the unit price.

Depending on how you decide to invest your money, some of these risks may apply. A financial adviser can manage these risks through appropriate investment selection; however, risk can never be completely removed.

When looking at risk associated with your individual investments, you will need to consider the following:

- Types of investment assets
- Volatility
- Investment styles
- Fund choice.

Types of investment assets

Any particular asset will give you a likely rate of return, whilst also carrying a certain level of risk. In general, the higher the rates of returns you can expect from an asset the more risk it will carry of falling in value as well. There are three different forms of assets available through the LF range of funds, which can favour one particular type or may be a combination of all three.

SHARES

Shares are also known as equities or stocks. With shares, you become a 'shareholder' or part-owner in a company. Shares are generally considered to be a good way to achieve longterm growth and of inflation-proofing your investment.

However, the value of shares can go up and down dramatically in the short term. Additionally, if you invest in overseas shares, changes in exchange rates can affect the value of your shares. Income from dividends is not guaranteed.

BONDS & GILTS

Bonds & Gilts are also known as 'fixed income securities'. A bond is a loan issued by a company to raise money. The return delivered on this asset is the interest the company pays on the loan in addition to any increase in the value of the bond itself. Government-backed bonds are also known as 'gilts'.

The value of bonds generally fluctuates less than equities and Government bonds are generally more secure than company bonds. However, there is the risk that returns do not keep pace with inflation and the company or Government that issues the bond may not be able to repay the interest or the capital value of the bond. This is known as counterparty risk.

CASH AND MONEY MARKET INVESTMENTS

Where a fund invests in cash, or in 'money market' instruments, this is generally considered the most secure and stable type of asset, but the value can still go down in some circumstances. Although returns are more stable, they tend to be very low in comparison with other assets and the value can be eroded by the impact of inflation.

Money Market investments often invest in bonds. As such, counterparty risk should also be considered for these investments. Counterparty risk (in this context) is the risk that the financial institutions with which monies are ultimately invested or deposited by the underlying fund, default on their obligations to repay the investments or deposits.

VOLATILITY

Returns from various asset classes can vary over the years. The variation in performance is called volatility. If an asset class or fund varies a great deal from their average performance, they are considered to have a high volatility. As a general principle, pension savings are intended to provide you with your income in retirement, you should think carefully about the level of volatility you are prepared to accept throughout the period you are saving for retirement and thereafter, should your funds remain invested. The level of risk you are prepared to accept may change over time.

Shares are the most volatile asset type and their value can vary a great deal over a short period of time. Cash, bonds and gilts are not as volatile, but their returns tend to be lower.

Investment styles

Fund Managers have two main investment styles. These are active investing and passive investing (also called index tracking).

ACTIVE INVESTING

Fund Managers use their experience and knowledge to invest in companies which they believe will exceed the market index. Fund Managers will actively identify, research, monitor and select companies for funds which they believe will exceed the market index in the long term. As these types of funds are more 'actively' managed, they tend to have a higher charge.

PASSIVE INVESTING

For passive investing, a Fund Manager will only invest in companies which are listed on the most appropriate market index. For example, if you were looking to invest in larger, more established UK listed companies, the index would be the FTSE 100. As a result of this, returns from passive funds should in general reflect the performance of their index.

In terms of risk, it should not be assumed that passive investing is less 'risky'. Both types of funds will generally follow the performance of the market. However, 'active' funds do have a greater potential to outperform the market, but conversely, also have the potential to be hit harder by volatility.

Fund choice

The risks affecting individual LF funds are affected by risks that the underlying funds are exposed to. These are based on the investment objectives and published risks of the underlying funds summarised below in addition to the generic risks introduced above.

The LF funds are listed in broad risk order as a guide only; advice should be sought from a financial adviser before choosing a particular fund. Each of the underlying funds has a factsheet, which gives more details in terms of the fund objectives, fund manager, investment styles and charges. These can be found at <https://pensions.linkgroup.eu/>.

		Asset Type					
		Equity	Fixed Income				
		Government Bonds	Corporate Bonds	Collective Investment Schemes	Money Market Instruments	Cash	
LF FUNDS							
Lowest Risk. This fund invests in a combination of deposits, money market instruments and other types of interest-bearing securities.	LF Cash Personal Pension Fund				✓	✓	
Lower Risk. This fund invests in fixed interest securities including gilts and index-linked bonds.	LF UK Gilt Personal Pension Fund	✓					
Lower-Medium Risk. This fund is a mixed-asset fund with a lower weighting in equities.	LF Cautious Managed Personal Pension Fund	✓	✓	✓			✓
Medium Risk. This fund is a mixed-asset fund with a weighting in equities of (circa 50%) with an allocation to property.	LF Global Multi-Index Personal Pension Fund	✓	✓	✓	✓	✓	✓
Higher Risk. This is a specialist equity fund which offers diverse geographical spread of equity investment.	LF Global Developed Index Personal Pension Fund	✓					

		Fund Specific Risks							
SUB-FUNDS		Currency	Smaller Companies	Emerging Markets	Fixed Interest	Concentrated Investments	Limited Investments	Derivatives	Property & Alternative Investments
<p>Lowest Risk. This fund invests in a combination of deposits, money market instruments and other types of interest-bearing securities.</p>	<p>LF Cash Personal Pension Fund</p>					✓			
<p>Lower Risk. This fund invests in fixed interest securities including gilts and index-linked bonds.</p>	<p>LF UK Gilt Personal Pension Fund</p>				✓	✓	✓	✓	
<p>Lower-Medium Risk. This fund is a mixed-asset fund with a lower weighting in equities.</p>	<p>LF Cautious Managed Personal Pension Fund</p>	✓			✓			✓	
<p>Medium Risk. This fund is a mixed-asset fund with a weighting in equities of (circa 50%) with an allocation to property.</p>	<p>LF Global Multi-Index Personal Pension Fund</p>	✓	✓	✓	✓			✓	✓
<p>Higher Risk. This is a specialist equity fund which offers a diverse geographical spread of equity investment.</p>	<p>LF Global Developed Index Personal Pension Fund</p>	✓							

FUND-SPECIFIC RISKS

Individual funds are affected by specific risks in relation to their particular investment objective. For LFSL these are:

Currency	The value of the fund can be volatile purely because of the exchange rate movements.
Smaller companies	Smaller companies tend to be riskier than large companies. This is because their shares can be harder to buy and sell. Their share value may go up and down more often than share values of larger companies, and by larger amounts, particularly in the short term.
Emerging Markets	Emerging Markets tend to be riskier than more established stock markets. The value of company shares in Emerging Markets may go up and down more often than those on more established stock markets, and by larger amounts, particularly in the short term. Other risk factors should also be considered such as political and economic conditions; local laws governing investments; lack of liquidity; and the reliability of trading and settlement systems which may impact on the ability to realise investments.
Fixed interest securities	<p>The funds may invest in fixed interest securities, usually corporate and government bonds. Investment returns are particularly sensitive to trends in interest rate movements and inflation. Fund values are likely to fall when interest rates rise. The financial strength of a company or government issuing a fixed interest security, or bond, determines their ability to make some or all the payments they are committed to. If their financial strength weakens, the chances of them not making payments increases.</p> <p>The funds may hold company bonds that pay higher interest rates. Such bonds are likely to have lower credit ratings. There is an increased risk that a bond-issuing company is unable to pay. Economic conditions and changes to interest rate levels may have a significant impact on the values of fixed interest securities.</p>
Concentrated investments	The funds may hold high proportions of a particular investment or concentrated investments in a particular market sector. If one of these concentrated investments or sectors declines in value, or is otherwise adversely affected, this can have a greater effect on the fund's value than if it held less concentrated investments.
Limited investments	The funds may hold a limited number of investments. If one or more of these investments declines in value, or is otherwise adversely affected, this can have a greater impact on the fund's value than if a larger number of investments were held.
Derivatives	A derivative is a contract between two or more parties whose price is derived from one or more underlying assets. The funds may use derivatives which raise the risk profile and volatility of the fund.

LFSL Drawdown Portfolios

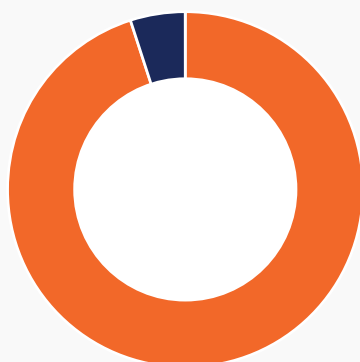
A portfolio is a collection of funds which a provider has brought together to meet a variety of attitudes to risk. The investment strategy of the portfolio does not change over time but the underlying investments may be altered. You will need to review your choice of portfolio if your attitude to risk or investment objectives changes.

We have created five drawdown portfolios for you to choose from, and you are also able to switch between portfolios at any point. If you choose a portfolio, you need to invest your whole Plan in the portfolio; we are

not able to offer partial investments. Our portfolios have been specifically designed for income drawdown.

For a more conservative portfolio with a lower level of risk, the investment objective will be to protect existing savings, but still allow for some potential for long-term growth. For a more moderate portfolio, where you are able to tolerate a higher level of risk, the fund will invest in a larger proportion of equities and a lower proportion of bonds and fixed income securities.

Example of higher-risk portfolio



● Equities ● Cash

Example of lower-risk portfolio



● Equities ● Bonds ● Cash

One of the benefits of choosing a portfolio is that you have built-in diversification within your investments, which can potentially assist in long-term growth objectives.

With our portfolios, you will also benefit from automatic quarterly rebalancing. This is where we will automatically review and adjust the funds (sell or buy funds) to ensure that the percentage asset allocation remains the same over time, thereby ensuring that your portfolio retains the same risk and investment objective.

As a portfolio's investment strategy does not change over time, it is important to regularly review your investment choice with your financial adviser.

INFLATION RISK

Inflation eats away at the value of your money. Your fund value doesn't decrease, but you lose buying power, as inflation decreases its potential purchasing power.

In other words, the amount that you can purchase with each pound in your pocket slowly erodes over time. Investments in Cash Funds or deposits expose you to that risk.

HOW DO LFSL MANAGE RISKS?

All the funds we invest in are subject to due diligence assessments – prior to investment and periodically after that.

LFSL has an established Investment Oversight Committee. The Committee meets formally each quarter to review individual funds to ensure that they continue to meet LFSL's strategic investment objectives.

This document does not highlight the full risks associated with investing in an income drawdown product. This document does not constitute the provision of financial, investment or other professional advice in any way. If you are unsure about the suitability of your investment, you should speak to your financial adviser. You may need to pay to do this.