

# Your guide to investment risk

 10 minute read

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This guide aims to help you understand and consider some of the risks involved when making investments through financial products, so that you can manage your James Hay plan with confidence. Please be aware that there are other risk factors not covered by this guide, and your appetite for risk may be different from other investors'.

**For this reason, we would always recommend that you engage with a Financial Conduct Authority (FCA) regulated financial adviser on an ongoing basis to best protect yourself and your savings.**



## Investment risks for James Hay products

You can invest in a variety of products with James Hay, and through each of these products, you can invest in a wide range of underlying investments, often referred to as financial instruments.

All investments involve a degree of risk, but different investments have different levels of exposure to risks, and different combinations of risks. This guide explains some of the specific risks that you need to consider when investing in the different types of financial instruments available through our products.

For information on the James Hay products themselves, please refer to the Key Features Document and Terms and Conditions for the product, available within the literature section of our website at [www.jameshay.co.uk](http://www.jameshay.co.uk).

For information on what investments are permitted within a specific product, please refer to the relevant product's Permitted Investments List, also available under the literature section of our website.



## General considerations and target market

You should not invest in any financial instrument unless you understand its nature and the extent of your exposure to risk. You should also be satisfied that it is suitable for you in the light of your personal circumstances and financial position.

Manufacturers of financial instruments will normally identify a target market for the investments they are offering. This will show the types of investor the investment is aimed at, and the types that it may not be appropriate for. You should include a review of this target market information when deciding whether the investment is suitable for your personal circumstances and your attitude to risk.

For funds available on our Investment Centre, we will make the target market information available on our website. For other investments, you should obtain this information directly from the investment provider.

Should you be in any doubt about the risks involved, or the suitability of a particular investment for your needs and personal circumstances, you should seek financial advice from a regulated financial adviser.



## InvestSmart

InvestSmart is a campaign launched by the FCA to help investors learn more about the risks associated with investing and to help them make investment decisions that suit their financial circumstances.

The InvestSmart website at [www.fca.org.uk/investsmart](http://www.fca.org.uk/investsmart) provides impartial information on basic investment principles and information to help you with your investment decisions.



## Financial instruments and their level of risk

### Cash

Holding money in a bank account with a UK regulated bank is generally seen as risk-free from an investment perspective. This is because the amount you deposit (your capital) does not fall in value. However, the return on your money paid through an interest rate can change or, if a fixed rate, will normally only be fixed for a specified period. Additionally, the effects of inflation on the purchasing power of your cash holdings needs to be considered if you hold large amounts of cash or hold cash over longer periods.

The only other risk to your capital is the financial strength of the bank holding it. In the event that the bank fails (becomes insolvent) you may be covered up to certain limits by the Financial Services Compensation Scheme (FSCS). Further information on this protection is available at [www.fscs.org.uk](http://www.fscs.org.uk).

### Collective Investment Schemes (commonly known as 'funds')

A fund is a term that covers different types of structure, normally Open Ended Investment Companies (OEICs) or Unit Trusts. Funds are arrangements that enable a number of investors to 'pool' their money, in order to gain access to professional fund managers. Investments held by these funds typically include gilts, bonds and quoted equities, but depending on the type of scheme, they may hold higher risk instruments such as property, derivatives, unquoted securities and other complex products.

The value of a fund, and the income derived from it, can decrease as well as increase and you may not necessarily get back the amount you originally invested. In addition, funds bear investment management risks, insolvency risks and possibly liquidity risks. Some of the more common risk factors are detailed in the Common and Sector Specific Risk sections of this guide.

You should ensure that you understand the nature of any fund before you invest in it. You can do this by making sure you read the Key Information Document (KID) or Key Investor Information Document (KIID) (which is made available to you for each fund) for a summary of the main risks. For funds available on our Investment Centre, you can obtain the KIID from our website. For funds not available on our Investment Centre, you will need to obtain this directly from the fund manager.

### Investment trusts

Investment trusts are similar to funds in that they provide a means of pooling your money with other investors, but they are publicly listed companies whose shares are traded on the London Stock Exchange. The price of the shares in the investment trust company will fluctuate according to investor demand and changes in the value of their underlying assets.

Investment trusts are subject to a combination of the risks associated with shares, bonds and funds in which they are invested. The value of investment trusts, or the income derived from them, can decrease as well as increase and you may not necessarily get back the amount you invested.

## Shares

Shares carry varying risks relating to the performance of world markets, interest rates, taxes on income and capital, foreign exchange rates, liquidity (the ease with which a share can be traded on the market) and the financial performance of the issuing companies. The value of, or income from, shares can go down as well as up and you may not get back the original amount you invested.

Shares purchased on the Alternative Investment (AIM) and Aquis Stock Exchange (AQSE) carry a higher degree of risk of losing money than other UK shares. This is because the requirements imposed on companies that are listed on AIM and AQSE are less stringent than those for companies with a full market listing. There is also usually a wider spread between the buying price and the selling price of these shares, and if they have to be sold immediately, you may get back less than you paid for them due to a lack of liquidity.

The price of these shares may change quickly and may go down as well as up. It may also be difficult to obtain reliable information about their value or the extent of the risks to which they are exposed.

## Exchange Traded Funds (ETFs)

ETFs are investment funds, traded like shares which hold assets such as shares, commodities or bonds. They normally closely track the performance of a financial index, and as such, their value can go down as well as up and you may get back less than you originally invested.

Some ETFs rely on complex investment techniques, or hold riskier underlying assets, to achieve their objectives and therefore you should always ensure you read the documentation provided to ensure you fully understand the risks before you invest.

## Bonds

Bonds are loans to a government or company, which pays a return on the sums that it borrows. They are also known as debt investments, and cover the categories of Debt Securities and Fixed Income Investments. Generally, they will be more stable than share-based investments but in some circumstances (particularly when interest rates are changing) they can be more volatile.

Bonds issued by major governments and companies are generally more stable than those issued by emerging markets or corporate issuers, and in the event of an issuer experiencing financial difficulty there may be a risk to some or all of the capital invested.

## Complex products

Some products (such as Hedge Funds, Structured Products, Warrants and Venture Capital Trusts) are defined as complex. There is no single definition for complex products, but products that fit into this category are generally those where:

- there is an actual or potential liability greater than the amount invested
- the product is a derivative or has derivatives embedded in it
- there are limited opportunities to sell; or
- adequate information is not generally available on the investment.

These types of investments carry additional risks to those described above for the other categories of investments. In some cases, this category of investment will not be permitted without us undertaking further enquiries, or requiring you to receive financial advice.

## Common risks

This section lists some common risk factors that may exist across various markets and investment types.

### Foreign exchange



If you hold investments denominated in overseas currencies, either directly or through an investment fund, your returns will be reduced if those currencies weaken in value against sterling.

Conversely, if currencies are strong against sterling, returns can increase when converted back into British pounds.

### Inflation



Inflation is the trend for the price of goods and services to rise over time. If the return on an investment or savings deposit fails to keep pace with this cost of living, your money will see its purchasing power, or 'real' value, decline.

### Charges



Charges will affect investment growth and what you ultimately get back from your investments, so it is important to understand what their impact on your returns will be.

You should also bear in mind that the level of charges may change over time.

### Interest rates



Bonds which pay a fixed income, such as government gilts, are sensitive to changes in interest rates.

If interest rates rise, bonds can see their market price fall because their fixed income payment looks less valuable, which can create losses for investors who choose to sell. Similarly, if interest rates fall, the value of a bond can rise.

### Credit quality



Bonds are also exposed to credit risk. If the creditworthiness of the issuing company or government (and therefore its ability to meet the promised payments on a bond) deteriorates, the value of a bond can fall.

### Fund manager/ investment manager performance



This is the risk of loss, or lower returns than you were hoping for, due to the poor performance of the fund managers of the funds held in your product, or by any investment manager you may have appointed to manage your investments.

## Insolvency and investor protection



A fund manager or investment manager's insolvency or default, or that of any other brokers involved with your transaction, may lead to you not getting back the full value of your investment. It is therefore important to consider whether your chosen investment is covered by the FSCS.

The FSCS is the UK's compensation fund for customers of authorised financial services firms, and may be able to pay compensation if a firm is unable, or likely to be unable, to pay claims against it.

However, not all investments are covered by the FSCS and there are limits on how much compensation can be paid. Further information is available at [www.fscs.org.uk](http://www.fscs.org.uk).

## Liquidity



There may be difficulty in selling an investment caused by a number of factors, including but not limited to:

- insolvency of the investment
- adverse stock market conditions; or
- selling restrictions placed on funds by their managers (such as suspension of redemptions).

In these circumstances you may not be able to sell such investments in a timely manner and the value of those investments may fall significantly.

## Overseas holdings



If you hold investments outside of the UK, due to local laws a third party nominee may not hold your investments in a way which means they are separately identifiable from investments of that third party or of us.

In the event of their insolvency, if there is a shortfall in investments available to settle all claims, all of your investments may not be recovered, and you may share proportionately in accordance with all investors' entitlements.

## Suspension of trading



Under certain trading conditions it may be difficult or impossible to liquidate an investment. This may occur, for example, at times of rapid price movement if the price rises or falls in one trading session to such an extent that, under the rules of the relevant exchange, trading is suspended or restricted.

For information on how we hold money and investments, and how protections under UK regulations apply, please refer to the [How your Money and Investments are held within James Hay Products](#) document, available on our website.





## Sector specific risks

This section lists some typical risk factors relating to the geographical area, industry and/or asset type applicable to a particular investment, particularly funds.

- Different funds carry varying levels of risk depending on the geographical region and industry sector in which they invest. You should make yourself aware of these specific risks prior to investing.
- Targeted Absolute Return funds do not guarantee a positive return and you could get back less than you invested, much like any other investment. Additionally, the underlying assets of these funds generally use complex hedging techniques through the use of derivative products.
- Smaller companies' shares can be more volatile and less liquid than larger company shares, so smaller companies' funds can carry more risk.
- Underlying investments in emerging markets are generally less well regulated than the UK. There is an increased chance of political and economic instability with less reliable custody, dealing and settlement arrangements. This means the market(s) can be less liquid.  
  
If a fund investing in markets is affected by currency exchange rates, the investment's value could either increase or decrease in response to changes in those exchange rates. These investments therefore carry more risk.
- Funds which invest in a specific sector may carry more risk than those spread across a number of different sectors.
- Due to their nature, specialist funds can be subject to specific sector risks. Investors should ensure they read all relevant information in order to understand the nature of such investments and the specific risks involved.
- Bonds issued by major governments and companies will be more stable than those issued by emerging markets or smaller corporate issuers. In the event of an issuer experiencing financial difficulty, there may be a risk to some or all of the capital invested. Any historical or current yields quoted should not be considered reliable indicators of future performance.
- The property market can be illiquid; consequently, there can be times when investors in property funds will be unable to sell their holdings. Property valuations are subjective and a matter of judgement.



## Take your time

You should never feel rushed or pressured into making investment decisions. If you are in any doubt, you should not proceed and speak to a financial adviser.

You can visit [www.moneyhelper.org.uk](http://www.moneyhelper.org.uk) for help with choosing the right financial adviser.

We are able to provide literature in alternative formats. For a Braille, large print, audio or E-text version of this document call us on 03455 212 414 (or via the Typetalk service on 1800 1 03455 212 414).

James Hay Partnership is the trading name of Nucleus Group Services Limited (NGSL) (registered in England number 02538532); James Hay Services Limited (JHS) (registered in Jersey number 77318); IPS Pensions Limited (IPS) (registered in England number 2601833); James Hay Administration Company Limited (JHAC) (registered in England number 4068398); James Hay Pension Trustees Limited (JHPT) (registered in England number 1435887); James Hay Wrap Managers Limited (JHWM) (registered in England number 4773695); James Hay Wrap Nominee Company Limited (JHWNC) (registered in England number 7259308); PAL Trustees Limited (PAL) (registered in England number 1666419); Sarum Trustees Limited (SarumTL) (registered in England number 1003681); The IPS Partnership Plc (IPS Plc) (registered in England number 1458445); Union Pension Trustees Limited (UPT) (registered in England number 2634371). JHS has its registered office at Aztec Group House, 11-15 Seaton Place, St Helier, Jersey, JE4 0QH. NGSL, IPS, JHAC, JHPT, JHWM, JHWNC, PAL, SarumTL, IPS Plc, and UPT have their registered office at Dunn's House, St Paul's Road, Salisbury, SP2 7BF. JHAC, JHWM, IPS and IPS Plc are authorised and regulated by the Financial Conduct Authority. (2/23)