For customers

Our new platform

nucleus platform

Guide to investment risk

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Introduction

Investing in financial instruments through a Nucleus product

Through each of our 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 and different combinations of risks. This guide explains some of the specific risks that you need to consider when investing in the various types of financial instruments available through our products. It also sets out some common risks that apply across different types of financial instruments, and some sector specific risks.

For information on the individual Nucleus products, please refer to the **Key Features Document and Terms and Conditions for the product**, available within the literature section of our website at literature.nucleusfinancial.com.

For information on which investments are permitted within a specific Nucleus product, please refer to the relevant product's **Permitted Investments List**.

General considerations and target market

This guide cannot disclose all the risks associated with the investments available to you through a Nucleus product. 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 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 those 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. You will need to 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 advice from a regulated financial adviser.

If you do not have an adviser and would like to speak to one, you can visit moneyhelper.org.uk for help on finding the right advice for you.

InvestSmart

InvestSmart is a campaign launched by the Financial Conduct Authority (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 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 low risk from an investment perspective 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 of time.

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.

One other risk to your capital is the financial strength of the bank holding it. In the event that the entity fails (becomes insolvent) you may be covered by the Financial Services Compensation Scheme (FSCS), but only up to certain limits. Further information is available at fscs.org.uk.

Collective Investment Schemes (commonly known as 'funds')

A fund is a term that covers different types of structures, 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 Risks and Sector Specific Risks 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)**, available to you for each fund, for a summary of the main risks.

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 the 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 Market (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. 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. 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 that 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. 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. Requests for investments into Complex Products may first require further enquiries, and they are typically only available to investors who have received financial advice.

Risks that may be common across different financial instruments

Foreign exchange risk

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.

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 their impact on your returns. You should also bear in mind that the charges may change over time.

Liquidity risk

There may be difficulty in selling an investment due to 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.

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, and this 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 and 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.

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.

Insolvency and investor protection

The insolvency or default of a fund manager, investment manager or 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 Financial Services Compensation Scheme (FSCS).

The FSCS is the UK's compensation fund for customers of authorised financial services firms. The FSCS 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 fscs.org.uk.

For information on how we hold money and investments, and how protections under UK regulations will apply, please refer to the **How your Money and Investments are held** document, available on our website.

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.

Beware of investment scams

Fraudsters often target people who are moving money in and out of their pension. You should be wary of any unsolicited approach offering upfront cash incentives or loans from your pension, or any promises or guarantees offered from investments.

For further information about how to avoid pension scams, please read the FCA's Pension Scams leaflet and visit their website at fca.org.uk/scams.

Sector specific risks

Different funds carry varying levels of risk depending on their geographical region and the industry sector in which they invest. You should make yourself aware of these specific risks prior to investing.

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

- 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, and so these funds can carry more risk.
- 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.
- Underlying investments in emerging markets are generally less well regulated than those in the UK. There is an increased chance of political and economic instability, with less reliable custody, dealing and settlement arrangements. The market(s) can also 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 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.
- The property market can be illiquid, and as a result, there can be times when investors in property funds will be unable to sell their holdings. Property valuations are also subjective and considered a matter of judgement.

Diversification of funds

When deciding how to invest your money, it's important to consider diversifying your investments. Diversification is a strategy that involves spreading your exposure to risk across various financial investments. Since asset values can go up and down, this approach helps manage risk by balancing potential losses with potential gains from different investments.

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