# Your introduction to investing in funds

A question of balance

neptune
Invest in depth

# Welcome

## Like many things in life, investing is about balance.

Investments can offer both risk and reward, and generally, the bigger the risk, the greater the potential reward. It's down to each investor to find the perfect balance for them, and this will vary depending on how much you have to invest, what stage of life you've reached and what you're trying to achieve.

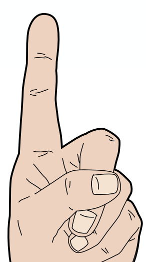
For new investors, the first steps can seem complicated. There are thousands of different investment products available and often the language is unfamiliar. That's why we've written this booklet: to give you a clear introduction to the most important investment principles. We'll help you to understand essential terms (you'll also find a glossary at the back) and hopefully give you a few ideas for making your money work a bit harder.

Why do we think we can do this? Well, Neptune is a specialist fund management company. We're not a bank so you won't find us on the high street, and we only focus on investments. We've been around since 2002, so we've got the experience to understand market conditions, investment opportunities and what it all means for our customers. What's more, we're privately owned, so we've been free to develop our own independent viewpoint. We try to adopt a balanced approach to investing – and we'd like to share that with you.

**We hope you find this guide useful.**

### Practical Example

*There may be a chance that our products are not suitable for your goals, but we will use one of our funds, the Neptune Balanced Fund, as an example throughout this booklet – it'll show how the investment concepts we discuss can work in practice.*



# So, what are the basics?

## Why should I invest?

Often, people find life too busy to invest properly. Some see it as complicated, time-consuming and, let's face it, a bit boring. But your first step as an investor needn't be difficult and the financial benefits can make it worthwhile.

Many of us already hold cash savings. Keeping cash in a bank or building society can be a good idea; it's secure and, even if the bank goes bust, you're unlikely to lose your money, because of protection in place for UK savers. However, at the moment inflation is high and interest rates are at record lows, so the value of cash savings is actually falling as each year goes by – meaning that your money cannot buy you as much this year as it could last year.

That's why you may want to consider other ways to make your money grow, especially if you don't need immediate access to it. Investing in funds might offer a good way to grow your money over the long term, though there are some risks you should be aware of.

## What sort of investor am I?

Investing means taking risks – you could get back less money than you invested. So it's important to understand how much risk you want to take. Typically, the younger you are, the more risk you might want to take, simply because you have longer to recover from any periods when your investments may have fallen in value. A retiree relying on pension income might be less willing to take risk.

## Here are a few questions to consider:

- What's my objective? Do I need income to supplement a pension, save for my children's future or do I want to buy a yacht in 20 years?
- What sort of return am I looking for?
- Is it more important to take an income from the money or grow my money?
- How long do I want to invest for? And when will I need my money back?
- Do I want to invest a lump sum or drip feed money into funds over a longer period, say on a monthly basis?

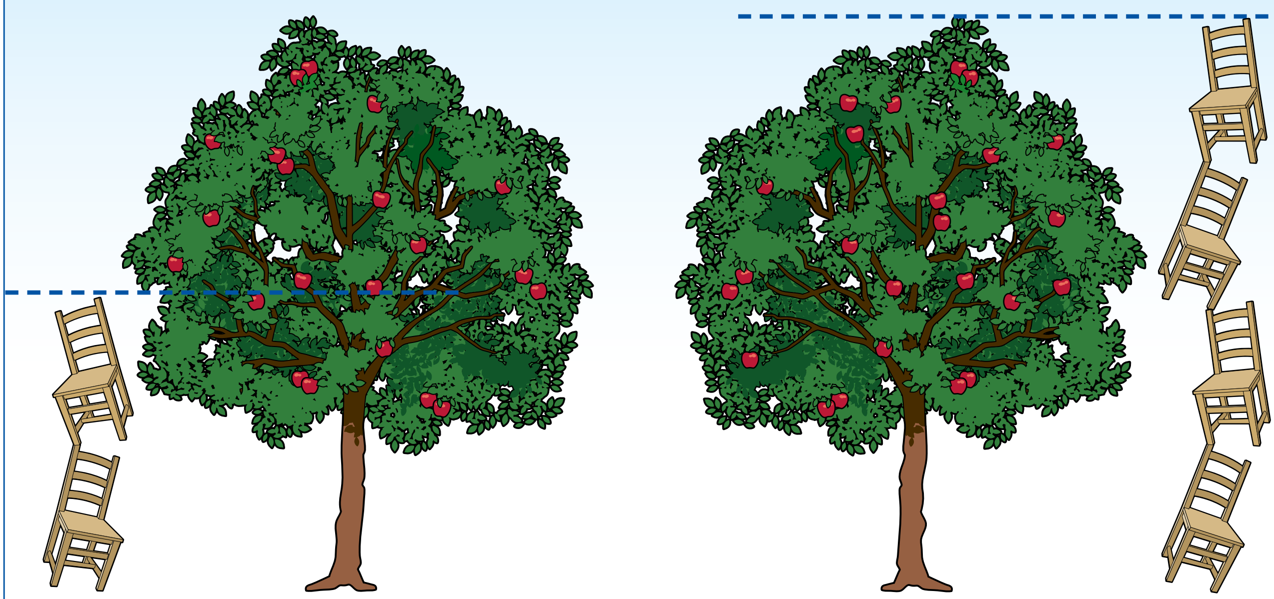
The answers to these questions will help you to determine the right level of risk and make it easier to choose suitable investments. If you feel you need help answering these questions, you should consult a financial adviser.

*The Fund may be interesting for new investors wanting to avoid higher risk companies. It aims to reduce risk by retaining some investment in cash, while also offering potential income or growth through carefully selected companies and bonds. Investors who are approaching or in retirement, and therefore may not have time to recover from any dips in stockmarket performance, may also be interested in funds that aim to reduce risk.*

The value of an investment and the income from it can fall as well as rise due to market and currency fluctuations and you may not get back the amount originally invested.

## Risk : Reward

Remember – generally, risk and reward are closely linked; as one goes up, so does the other.

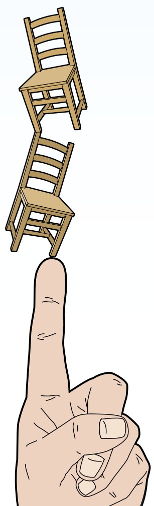


**Low risk**
**but**
**low reward**

**High risk**
**but**
**higher reward**

### How long should I invest for?

You should see any investment in funds as being for the medium to longer term – five years or more. That's because the longer you invest, the less vulnerable you are to short-term dips in the performance of your investment.



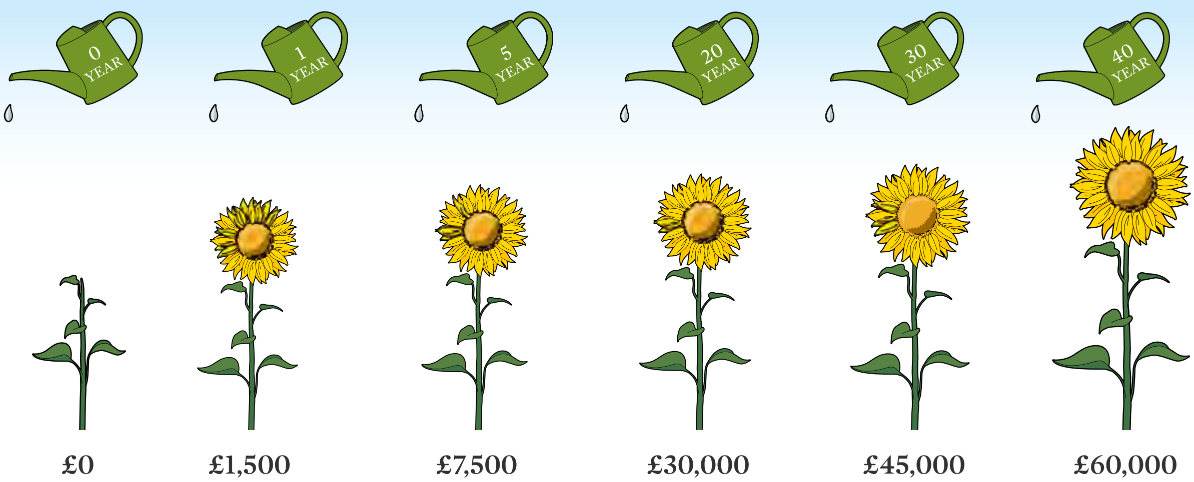
# What are funds?

A fund is a "collective investment", meaning an expert manager will use your money, alongside that of other people, to buy a number of different assets on your behalf (we explain assets in the next section). The basket of investments chosen by the fund manager is known as a portfolio, or fund. Funds might aim to pay investors a regular income or grow the money. Some do both. Here are the differences:

Growth: this means the fund aims to increase the value of your original investment by selecting assets that the fund manager believes will increase in value. It might take more risk and aim to grow quickly, or take a more cautious approach for steady growth. The latter approach might involve, say, investing in the stocks of large, well-established companies.

Income: instead of only selecting assets that the manager thinks will increase in value, income funds aim to make regular payments to their investors by selecting assets that pay out cash. This can then be used immediately, to supplement pension earnings for example. Some funds allow you to reinvest any income you receive. This means that, as each year goes by, you could benefit from investment rewards on the original amount – because assets selected for income payments may still grow in value – and also on the reinvested amount. It's like growing a sunflower and using the seeds to plant more – the longer you do it, the bigger the crop. This can have a dramatic effect on your investment value over time, as shown below:

### INTEREST EARNED IF NOT REINVESTED




Practical Example – Neptune Balanced Fund

*Spread risk across cash, bonds and equities, with equities selected from around the world*

*Invest with a lump sum or setting up a regular savings plan from £50 per month*

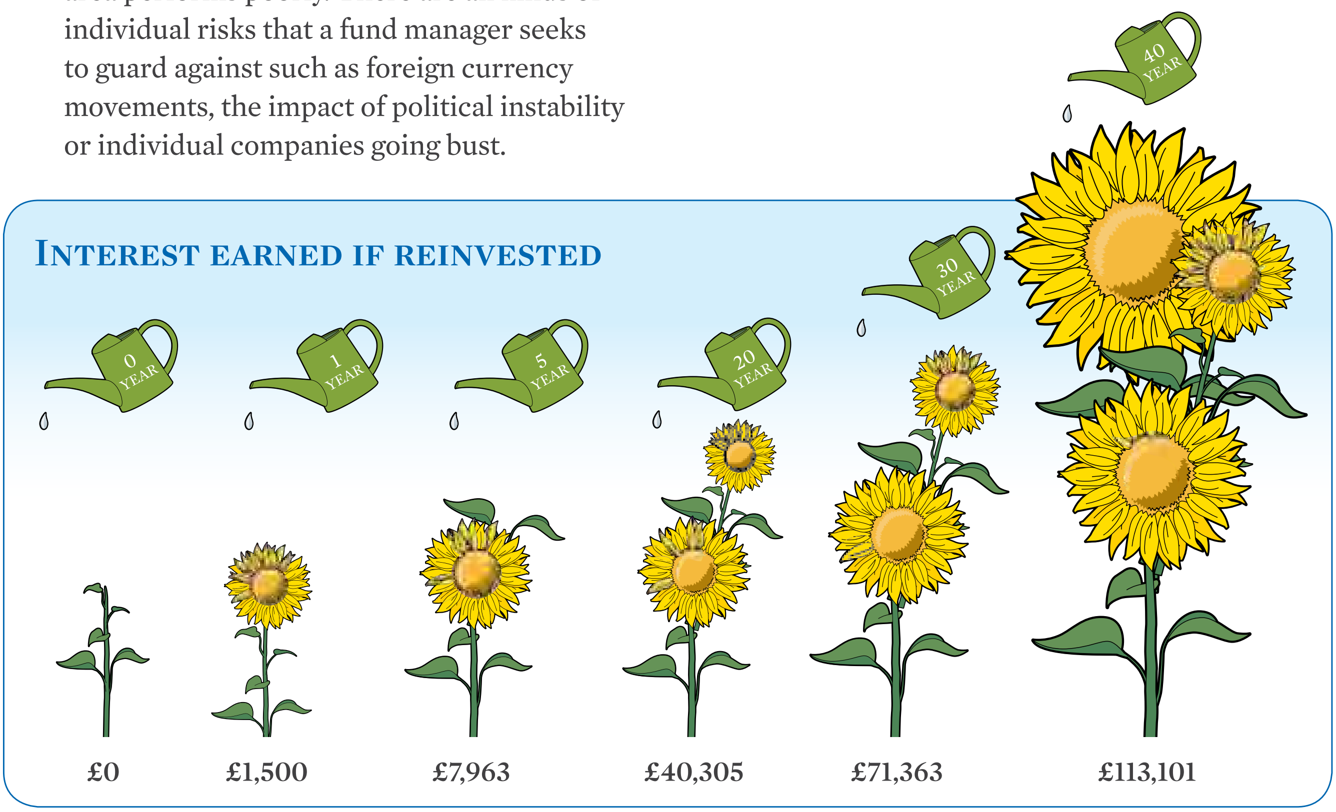
*Receive income payments or reinvest any returns*

The value of an investment and the income from it can fall as well as rise due to market and currency fluctuations and you may not get back the amount originally invested.

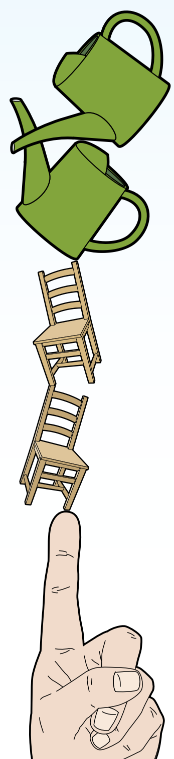
## Why do people invest in funds?

You'll find a vast range of funds are available, investing in anything from UK property to small companies in South America. Funds are popular investments for a number of reasons:

- **Expertise:** you don't need to have particular knowledge or investment skill, as someone else takes care of your investment for you. This also saves you time.
- **Managing risk:** some funds spread your investment across a wide range of different assets, regions and sectors. This helps to reduce the risk of financial loss if any single area performs poorly. There are all kinds of individual risks that a fund manager seeks to guard against such as foreign currency movements, the impact of political instability or individual companies going bust.
- **Low cost:** pooling your money with other people's means you get a more varied portfolio of investments than most people could afford alone. This is because the cost of buying and selling the different assets in a varied portfolio could be prohibitive if you tried to do it on your own.
- **Flexible:** most funds allow you to invest a lump sum or smaller, regular amounts.




Note: For illustrative purposes only. Based on initial investment of £50,000 earning 3% interest per year.



# What are asset classes?

An asset class is simply a category of investment. Here are the main ones:

### Cash
Relatively secure and pays regular interest. It’s a low risk asset but offers low potential returns and the total amount may be falling in real terms all the time, as living costs rise.

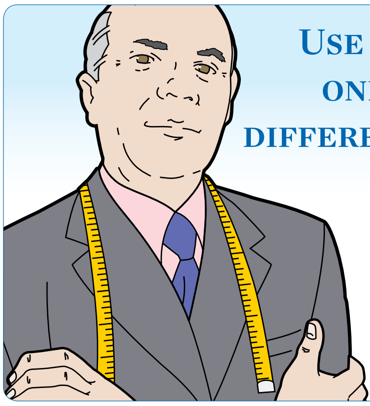
### Bonds
Basically an IOU, where the investor loans money to a company or government in return for an agreed rate of interest over an agreed period of time. At the end the investors get their original sum back. This is considered a lower risk investment than equities, though higher risk than cash.

### Equities
Shares in a company, meaning that you own part of the company. Tends to be a higher risk and higher return asset than either cash or bonds.

There are many other asset classes available, including property, commodities and specialist investments, such as hedge funds. However, these can be complex and are therefore thought to be less suitable for inexperienced investors.

### Practical Example – Neptune Balanced Fund
*The Fund invests in a portfolio of the three main asset types: cash, bonds and equities. We allocate the assets based on how we believe global markets and the different asset classes will perform – we keep this under constant review, adapting to changes in the financial markets.*

As an investor, you have several ways to access assets:



### Use an expert – one for each different asset class

### Buy multiple funds – each specialising in a different asset class

### Invest in a single multi-asset fund

So as you can see, you don't have to make a choice between each of these asset classes. Your investment can have a blend of each, if you wish.

### What should I know about asset allocation?

Asset allocation is one of the most important concepts in investing – it's about judging how much of your investment to place into different asset classes and which investments within each asset class are likely to perform well. In fact, academic research* shows asset allocation is a key driver of investment returns – so it's worth serious attention.

Someone willing to take higher risks for potentially higher returns might want a larger portion of equities; those wanting to reduce risk might focus on cash or bonds instead. It's about finding the right balance for you, and this will vary depending on where you are in life and how sensitive you are to taking risk.

*Source: "Does asset allocation explain 40, 90 or 100 Percent of Performance?" Ibbotson and Kaplan, 2000.

# Why all the fuss about diversification?

Diversification means making sure your investment portfolio is varied, with a good mix of assets, regions, fund managers and sectors. This goes beyond asset allocation, aiming for diversity within each asset class, as well as across your entire portfolio. There are two main benefits of a diverse portfolio:

### Minimising risk

There's a concept in investing called "correlation". Simply put, it means whether different assets in your portfolio gain or lose value at the same time. Imagine you have a cupboard full of shoes: if they were all wellington boots, you would be well-equipped for wintry conditions, but less happy on the beach in summer. It's similar with investing, as a poorly diversified portfolio means when one of your assets is doing badly, so is your entire portfolio.

Diversification helps to minimise this danger by reducing correlation between your assets – so if one of your assets has disappointing performance, it's possible that your other assets could balance this with good performance.

### Maximising opportunity

The other benefit of diversification relates to growth. It's difficult to predict which assets, regions or sectors will perform well, so it's wise to spread your investments widely so you don't miss out. It's also true that some people might not want a diverse portfolio, deciding to concentrate on a narrow area instead. However, this is a higher risk approach and requires considerable experience and expertise.

Practical Example – Neptune Balanced Fund

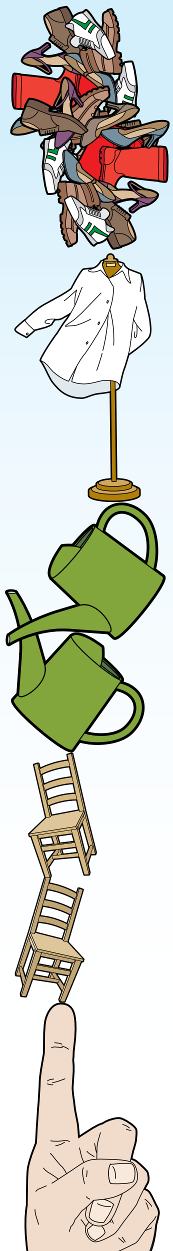
*It's a well-diversified fund investing in cash, bonds and equities, both in the UK and overseas.*

## POORLY DIVERSIFIED

- Cash
- UK companies

## WELL-DIVERSIFIED

- Cash
- UK equities
- Asian equities
- Energy equities
- Healthcare equities
- Technology equities
- Small company equities
- Large company equities
- US government bonds
- UK corporate bonds
- European bonds
- Emerging market bonds



# What's the difference between active and passive investing?

There are two main approaches to investing, both with advantages and disadvantages:

### Passive investing

This means investing in funds that are purposefully designed to track the performance of a market, normally the stockmarket, so there is very little human input. It's like driving on a motorway but without the option of changing lanes – depending on how clear the traffic is, you'll move quickly or slowly. In the same way, passive funds go up or down with the market. There are many passive funds available and through them you can track most investment markets, like property, gold or an index like the FTSE 100, which represents the hundred largest companies traded on the London Stock Exchange.

### Active investing

An active investment approach often means that the fund manager is using his or her expertise to seek stronger returns than the stockmarket. So, in contrast to the passive car, it has the freedom to change lanes and find a different route. This means an active fund has the potential to perform better than the market, or "outperform". However, it could also provide less growth than the market.

An active manager can also try to manage risk, by keeping an eye on markets, economies and global trends, and selling assets that look likely to lose value. The success of this depends on the skill of the manager as well as careful research and analysis.

**+**

**Tend to be lower cost due to lack of expert input**

**Returns will be broadly in line with the market**

**Solid investment when markets are rising**

**–**

**Your investment will fall in value if markets go down**

**Unlikely to outperform the market**

**No flexibility to adapt to new opportunities**

**+**

**Flexibility to adapt to changing markets**

**Potential to outperform the market, but this is not guaranteed**

**May be able to switch into safer assets in poor economic conditions**

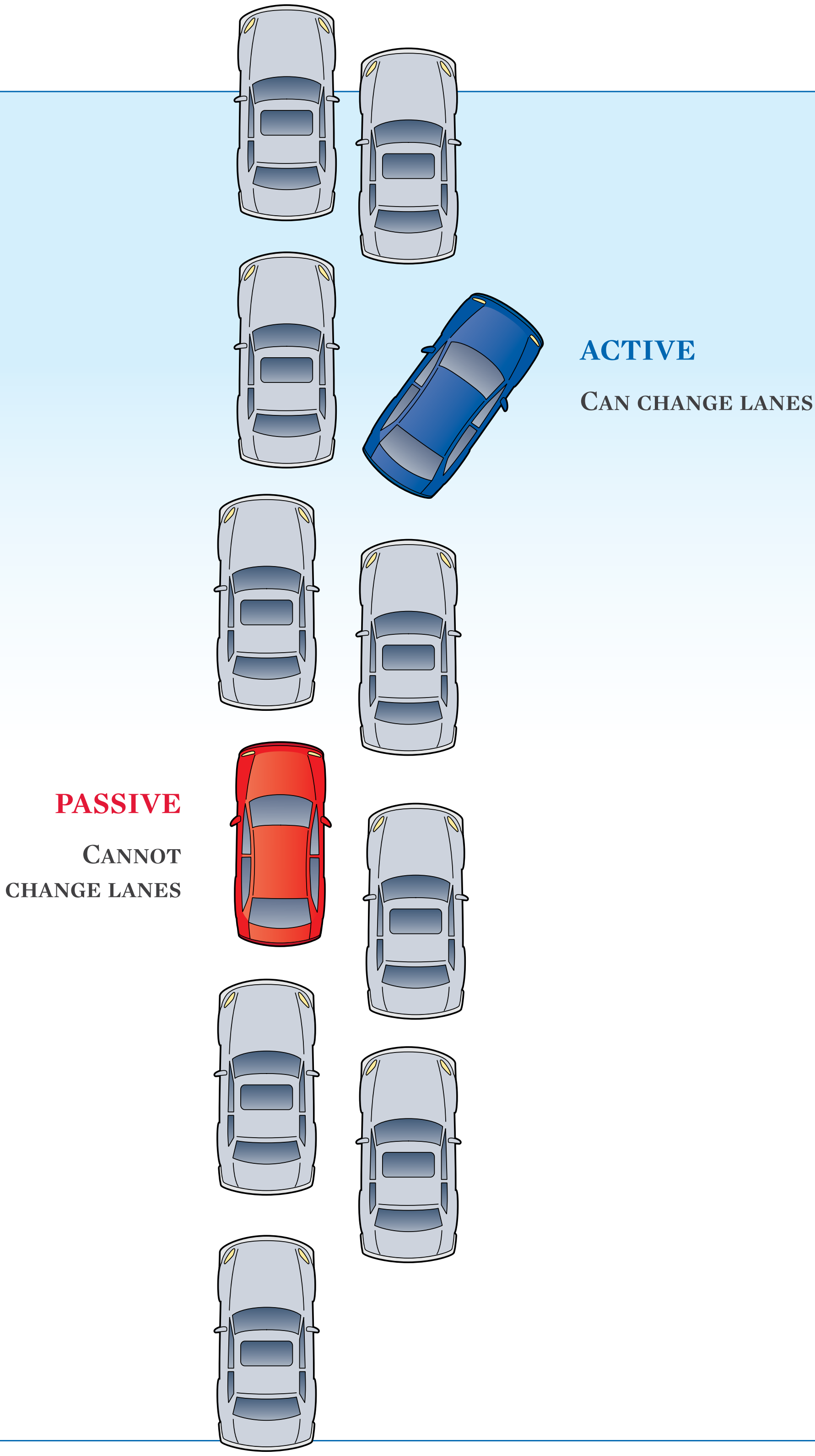
**–**

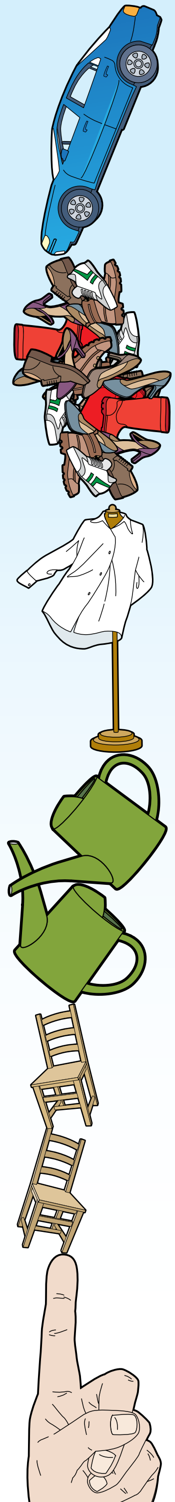
**Cost more, due to expert input**

**Risk of underperforming the market**

**Dependent on the skill of the manager**

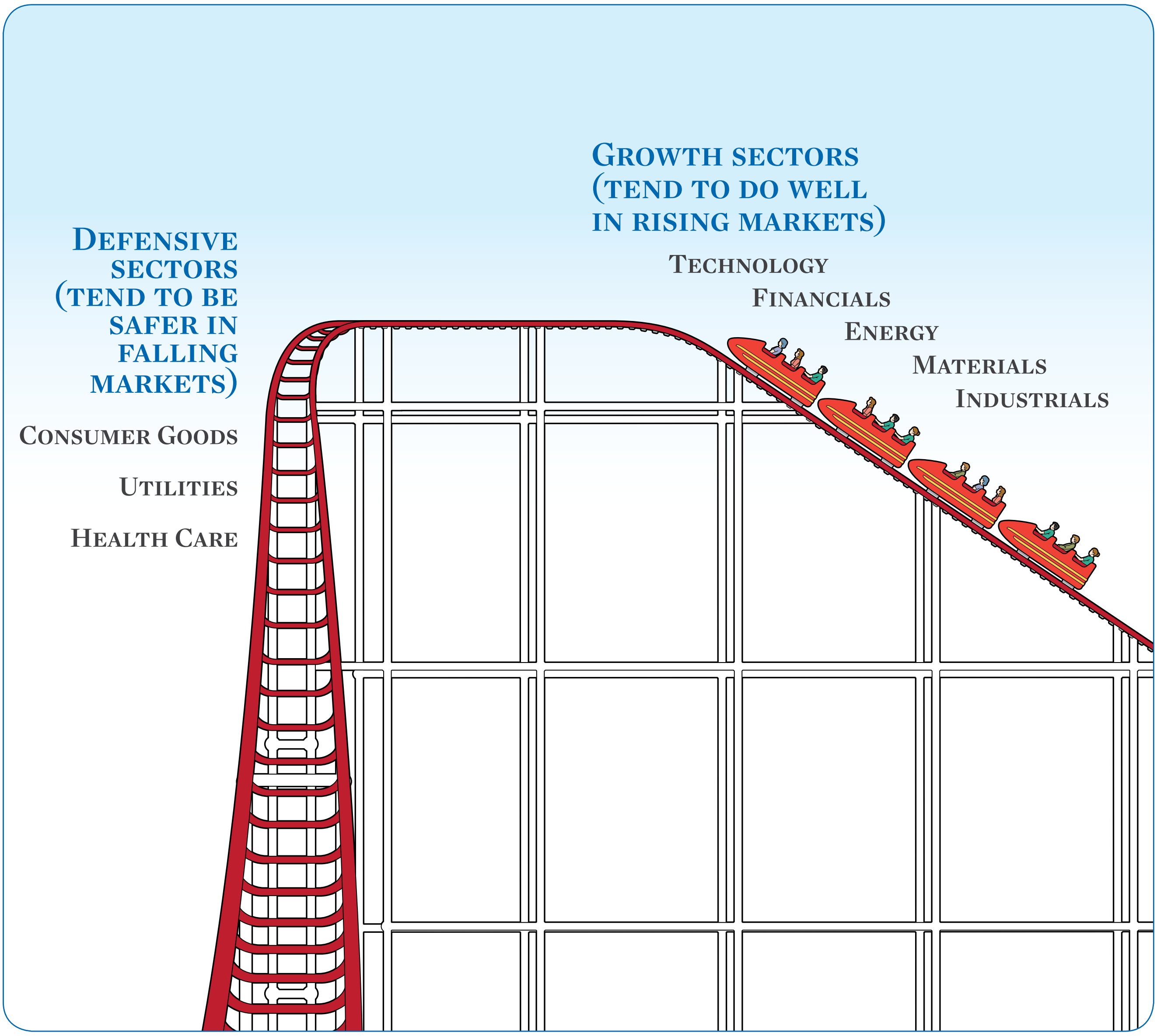
> *"As strong believers in active management, we are fiercely competitive and look for great investment opportunities across the world. We adapt our funds to make the most of changing market conditions."*
>
> Robin Geffen, Manager of the Neptune Balanced Fund


ACTIVE
Can change lanes
PASSIVE
Cannot change lanes



# What do I need to know about sectors?

In investment terms, a sector is another word for an industrial area of the economy in which companies provide a similar product or service. There are numerous sectors, though they can be broadly grouped in the following way:




Practical Example - Neptune Balanced Fund

*Invests across defensive and growth sectors* ✓

*Invests primarily in larger companies* ✓

*Shifts emphasis depending on market conditions* ✓

### Should I invest in large or small companies?

There are also investment sectors that group companies by size. For example, if you invest in the FTSE 100, you're investing in the hundred largest companies in the UK. In contrast, the FTSE SmallCap Index covers smaller UK companies that are traded on the stockmarket.

Here are some of the differences:

## Small companies

**+**

**Can be quick to respond to changes and new opportunities**

**Can grow rapidly**

**–**

**May struggle to weather bad economic conditions**

**Riskier due to small size, as not as financially secure as their bigger counterparts**

## Large companies

**+**

**Big enough to survive during tough economic times**

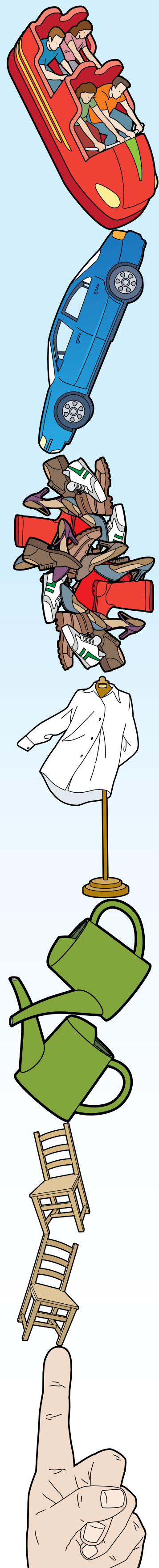
**Size means lower risk for investors**

**Relatively stable profits mean some pay regular dividends to shareholders**

**–**

**Unlikely to grow quickly**

**Slow to adapt to market changes**



# Should I invest at home or abroad?

Many investors in the UK focus on British companies, bonds and sterling cash savings. Partly, this is because the UK provides a mature economy where major social, economic or environmental upheaval is unlikely. It's also a well-regulated market with numerous laws to protect you from illegal or unfair practices. However, you may want to look farther afield to benefit from diversification and greater opportunities.

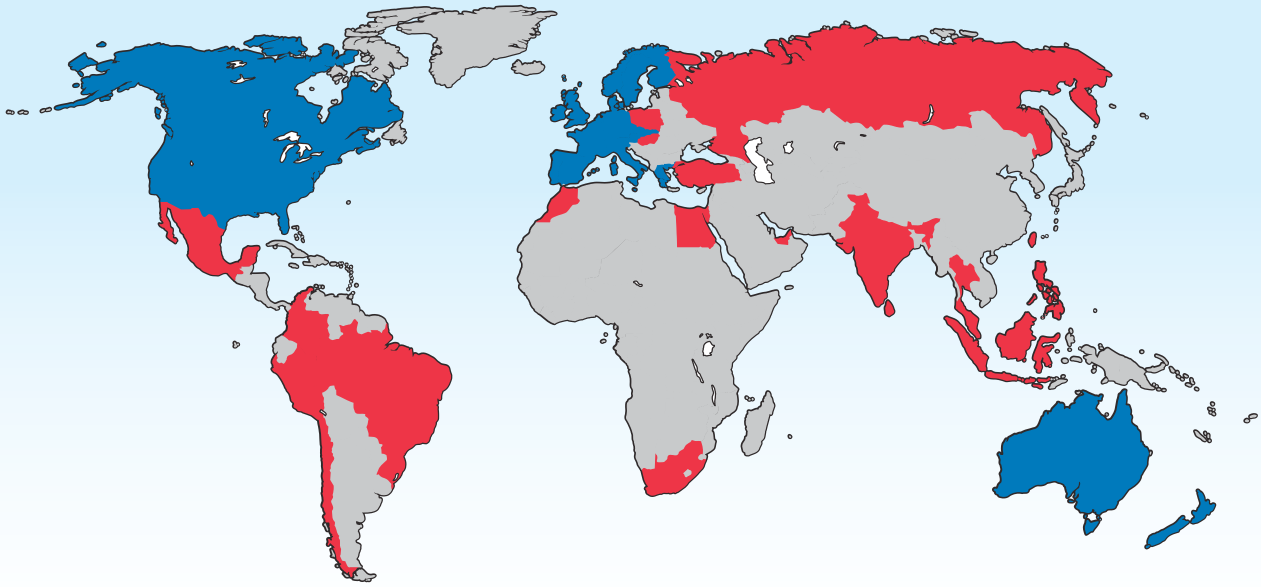
### Why would I want to invest outside of the UK?

You can diversify outside the UK by investing in other Western economies, such as the USA, Japan and Europe. Like the UK, these are mature markets where investment practices will be tightly controlled. Or, you could invest in emerging economies, like China, India and Russia, which are experiencing rapid economic growth and therefore offer exciting investment potential, although greater volatility.

However, you should be aware that many overseas investments operate in foreign currencies, and therefore changes in exchange rates can affect your investments positively or negatively.

The Fund selects investments from both developed and emerging markets, seeking a good balance of risk and return. It holds a core investment of at least 50% in UK assets. Recently, the Fund has focused on high quality, well-managed companies, as well as global businesses that benefit from growth in emerging markets.

The value of an investment and the income from it can fall as well as rise due to market and currency fluctuations and you may not get back the amount originally invested.



## Developed markets

**Mature economies, so relatively stable**

**Strong regulation**

**Consumer protection**

**Seen as lower risk**

**May not offer the strongest growth**

## Emerging markets

**Have the potential to become leading economies in the future**

**Experiencing rapid growth**

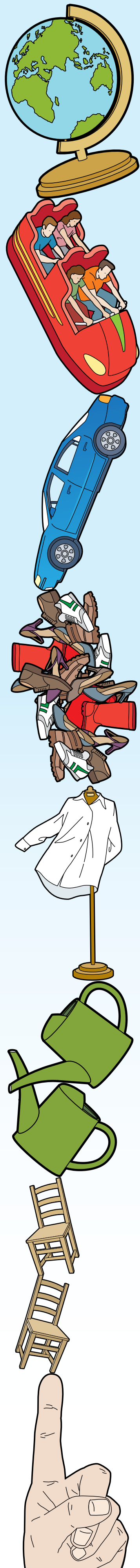
**Immature economies, so might be less stable**

**Less well regulated**

**Less consumer protection**

**Seen as riskier**

**Consider exchange rates**

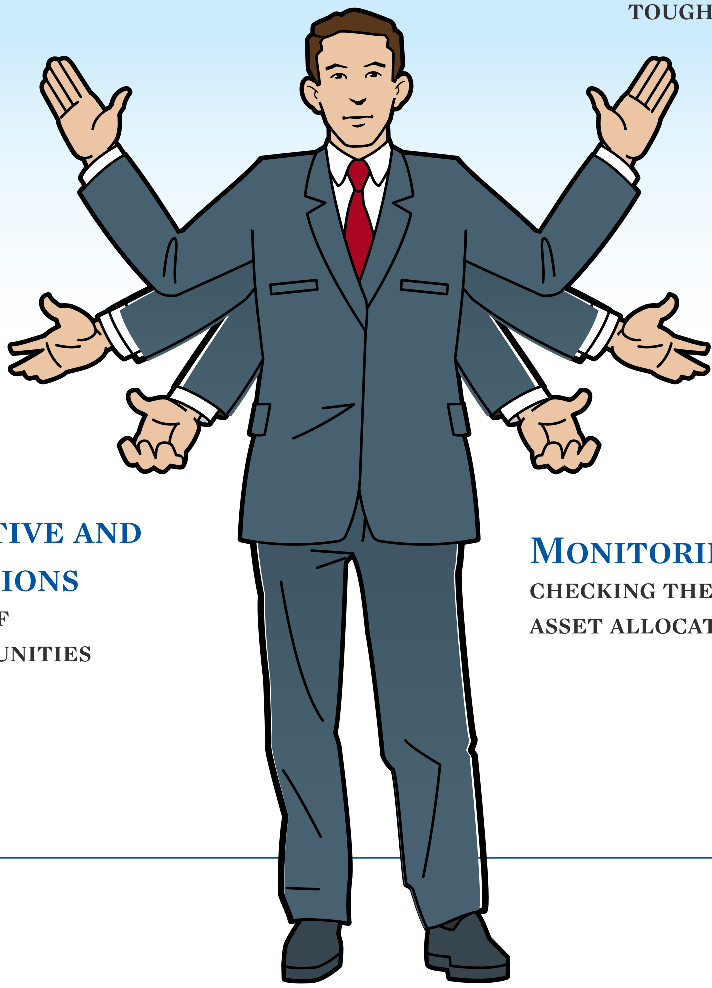


# What happens to my money?

How the fund manager uses your money depends on whether you invest in an active or a passive fund. If you invest in a passive fund, the fund management company will check the portfolio on a regular basis, to ensure it is tracking the market effectively. An active manager has a bit more work to do:

### Research and analysis
UNDERSTANDING WHICH INVESTMENTS WILL PERFORM WELL OR POORLY

### Controlling risk
FOR EXAMPLE, MOVING INTO CASH DURING TOUGH PERIODS



### Keeping you informed
COMMUNICATING INVESTMENT VIEWS AND UPDATES

### Trading
BUYING AND SELLING ASSETS

### Making proactive and reactive decisions
TAKING ADVANTAGE OF SHORT-TERM OPPORTUNITIES

### Monitoring portfolios
CHECKING THE OVERALL ASSET ALLOCATION IS RIGHT

### Practical Example - Neptune Balanced Fund

There are a number of ways to invest in the Fund:

- Buy directly from us
- Visit an online fund supermarket
- Go through an IFA or bank if you need advice
- No penalties for early exit

The value of an investment and the income from it can fall as well as rise due to market and currency fluctuations and you may not get back the amount originally invested.

## How can I invest in a fund?

Like any product on sale, there are several different places you can buy funds. This includes the fund management companies themselves, but also online fund supermarkets and wrap providers. You can also go through an Independent Financial Adviser (IFA), bank or building society and therefore have the support of an expert in finding the best fund for you.

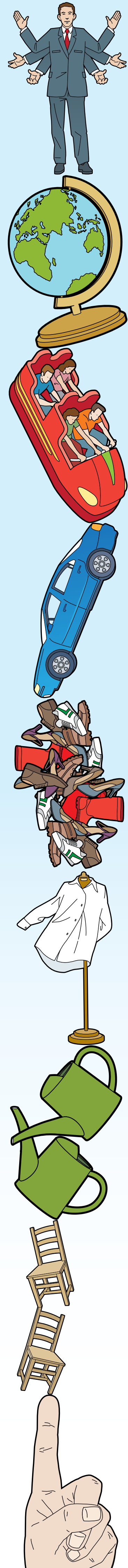
Of course, you need to understand any fees or charges associated with the fund. For example, investing through an IFA could cost more as they offer guidance. It's important to find out what the overall costs will be, in pounds not just percentage terms. If in doubt, you should get advice.

## How to choose a fund management company

You'll find a bewildering variety of fund managers to choose from, and all will publish information on their funds' objectives, costs and performance record. Managers vary in their approach to investing, with some offering a cautious approach, while others will be more adventurous. It's worth taking the time to compare funds and find a manager you like – after all, it could be the start of a long-term relationship.

## How do I get my money back?

You can always withdraw your money from a fund, though some investments include minimum investment periods or penalties for early exit. Depending on when you withdraw your money, you may get back less than you invested.



# Where do I go from here?

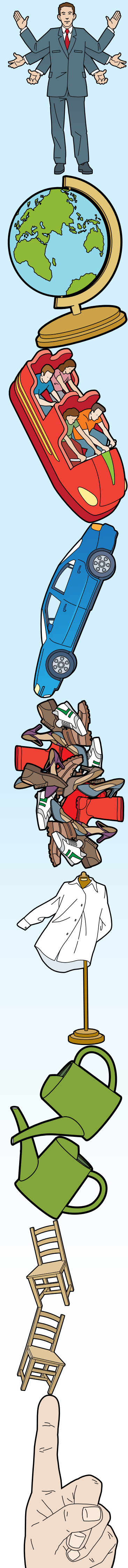
## Hopefully, we've helped you on the first steps towards making the most out of investing: it's all about taking a balanced view of assets, regions, sectors, and of course risk and reward.

To take your next step:

- If you would like financial advice, you could visit your bank or building society. You can also talk to an Independent Financial Adviser (IFA) visit www.unbiased.co.uk to find a local IFA.
- You can also buy our funds through a number of 'online fund supermarkets' and 'wrap providers'. Just search that term on the Internet to find out more.
- Just visit www.neptunefunds.com for more information about the Neptune Balanced Fund or any of our other investment solutions.

Happy investing!

# What terms do I need to know?



**Active investing**
investing where the returns depend on the skill of an expert

**Annual management charge (AMC)**
the yearly fee a fund manager like Neptune charges investors for its expertise

**Asset allocation**
deciding how much to invest in different asset classes (bonds, equities, cash etc)

**Benchmark**
a standard against which the performance of a fund is measured, e.g. an index such as the FTSE 100 Index.

**Bond**
a loan from an investor to a company or government in return for regular interest payments, over a pre-agreed period of time

**Correlation**
the degree to which assets within a portfolio rise or fall in value at the same time

**Derivatives**
A financial contract, the value of which is determined by the price of something else (such as a share or financial index or an interest rate)

**Diversification**
spreading investment across a number of different assets, regions or sectors

**Dividend**
a payment made by a company to its shareholders

**Equity**
a share of ownership in a company

**Growth**
the increase in value of your investment

**Income**
the payments you receive from your investment

**Initial charge**
a one-off fee investors pay to join a fund

**Passive investing**
investing where the returns depend on tracking market movements

**Return**
the amount you gain in terms of income and growth in your investment

**Risk**
the potential for losing value in your investment

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We are required to tell you that this guide is in English and that we will communicate with you in English.

Neptune is not registered (and nor is it required to be) with the Jersey Financial Services Commission (the "Commission") under the Financial Services (Jersey) Law 1998 to provide fund services business as a distributor or otherwise. No consent has been sought or obtained from the Commission pursuant to the Control of Borrowing (Jersey) Order 1958 in respect of circulation of this document.

Before entering into an investment agreement in respect of an investment referred to in this document, you should consult your own professional and/or investment adviser and please read all fund documentation before investing.

These Funds may have high historic volatility ratings and past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise due to market and currency fluctuations and you may not get back the amount originally invested. Tax assumptions and reliefs depend upon an investor's particular circumstances and may change if those circumstances or the law change. Details are contained in the Prospectus.

These Funds may invest more than 35% in government and public securities in a number of jurisdictions. For further details please see the Prospectus.

If you invest through a third party provider you are advised to consult them directly as charges, performance and terms and conditions may differ materially. For the impact of charges and other expenses on specific funds, reference should be made to the Prospectus, Key Investor Information and Supplementary Information Documents which can be obtained by calling 0845 125 6294 or downloaded from www.neptunefunds.com. The treatment of charges is not uniform across all funds. Lines are open on weekdays from 9am to 5pm UK time.

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This document does not form part of any contract for the sale or purchase of any investment. Any investment application will be made solely on the basis of the information contained within the Prospectus (including all relevant covering documents) which will contain investment restrictions. This brochure is intended as a summary only and without taking into account individual investment objectives, financial situation, particular needs or tolerance for risks.

### Investment Risks

Funds that invest in a smaller number of stocks can carry more risk than funds spread across a larger number of companies.

Investments in smaller companies can be less liquid than investments in larger companies and price swings may therefore be greater than in large company funds.

Where a fund holds investments denominated in currencies other than sterling, investors should note that exchange rates may cause the value of these investments, and the income from them, to rise and fall.

Potential investors in emerging markets should be aware that emerging market investments can involve a higher degree of risk. Less developed markets are generally less well regulated than the UK and do not have the strict standards of accounting and transparency present in developed markets. Some of these markets may have relatively unstable governments, economies based on only a few industries and securities markets that trade only a limited number of securities. As a consequence, both the value of investments made and the case of which the underlying securities can be bought and sold may be adversely effected.

Some funds may use derivatives for investment purposes. These instruments can be more volatile than investments in equities or bonds.