MyFolio Funds customer guide

Standard Life

Contents

This brochure contains information about Standard Life MyFolio Funds and is intended only to be used as part of investment discussions with your adviser. We recommend that you seek financial advice before you take any action on the information contained within. There may be a charge for this.

Whatever your investment goals, we can help

Ready to meet a wide range of needs

At Standard Life we offer a number of investments designed to meet a wide range of goals. After all, everybody's different. Some people are quite conservative. Others are happy to take a more adventurous approach to investing. It's all about finding the right balance between risk and reward.

Talking to your financial adviser is an all-important part of the process. But it's also reassuring to know that once you've decided your investment aims and approach, Standard Life has the expertise and experience to help you.

It's all about finding the right balance between risk and reward.


With our experience
and expertise we can
help you reach your
investment goals.

The big questions to get you started

Almost every investment should start off life in the same way. And that involves you meeting with your adviser and answering a series of important questions as fully as you possibly can. It's possible to break them down into the following big three.

What are your investment goals?

To put it another way, what are you investing for? Be specific. Which leads us to...

How long do you want to invest for?

Are you saving short-to-medium term for a special family event or big life purchase? Or longer-term, say, for retirement? If so, how would you like to spend your retirement? The more detail you give, the easier it is for your adviser to help.

What's your attitude to risk?

You should also consider the crucial matter of risk. Crucial because working out your attitude to risk helps determine the fund that may be right for you.

The more detail you give, the easier it is for your adviser to help.

Make the most of your financial adviser

There's no underestimating the importance of your financial adviser as you begin your journey to find the right investment for your needs. They will bring invaluable knowledge and expertise to help you make the right choice.

How your adviser can help

- They work with you to understand your goals
- They can help you work out your attitude towards risk and return
- They can help you select the right products and services
- They can help you work out how much to save and for how long
- This, in turn, makes it easier to narrow down the range of funds suitable for you
- They put you at the heart of the process.

Choosing the right investment

The world's economy can be quite challenging at times. Uncertainty over job security and the direction of financial markets make it difficult to know how best to invest for the future.

In other words, while investing for your future is always a good idea, there's not always one 'right way' to invest. It really does come down to what you're investing for, how long you want to invest for and your attitude to risk.

For example, investing wholly in equities may mean missing out on gains in other asset classes. Or, while holding some of your portfolio in cash can be a good option, with interest rates at historic lows, you may find that the rate of return from cash deposits is less than the rate of inflation which can erode your buying power.

One way to spread the risk is to broaden the type of things you invest in and where they are located.


Investing for the future
is always a good idea.
We can help you choose
the right way.


Everyone wants to
invest successfully.
Spreading the risk is
a key part of that.

Why spreading the risk makes sense

A golden rule of investing money is diversification – or spreading the risk. And when you think about it, it's just common sense.

Putting all of the money you have to invest in just one company's shares is a really high-risk strategy. If that company does well, you'll reap the rewards. But obviously there's a flipside. If the company doesn't perform well or gets into difficulty, you could lose a lot – if not all – of your money. Diversification across asset classes can help.

Asset classes

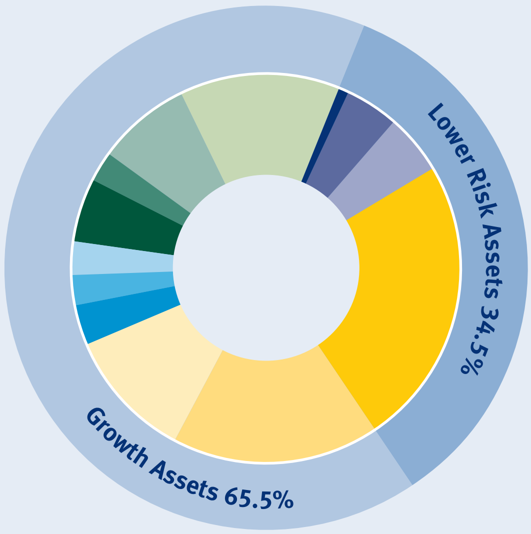
However, diversification isn't just confined to investing across shares of different companies. It can also mean spreading your money across different types of investment – called asset classes – such as stocks and shares, bonds and property and also investing in a range of countries in addition to the UK.

Different asset classes respond differently to changes in the economic conditions. Some could go up in value, at the same time as some go down. So, in effect, spreading your money across asset classes can help to smooth out your investment over time. Be aware though, even a well-diversified portfolio can still fall in value.

The chart below shows an example of the different assets you could expect to find in a MyFolio Multi-Manager Fund.

This pie chart shows a typical asset mix for a level III risk profile. Not all the assets shown will appear in every fund. The mix of assets and their proportions will vary depending on the risk level and style selected.

An example of an asset spread



Lower Risk Assets

- Cash & Money Markets (1.0%)
- UK Gilts (4.5%)
- UK IL Gilts (5.0%)
- Sterling Corporate Bonds (24.0%)

Growth assets

- UK Equities (17.2%)
- US Equities (10.8%)
- European Equities (3.6%)
- Japan Equities (2.4%)
- Asia Pacific Equities (2.8%)
- Emerging Market Equities (5.2%)
- Sterling Hedged Global High Yield (2.4%)
- UK Property (8.0%)
- Absolute Returns (13.1%)

How MyFolio Funds can help

Diversification built in

All of the MyFolio Funds invest in a diversified range of assets. This can help you to spread your risk easily.

Balancing risk and reward

MyFolio Funds are designed to make getting the right balance between risk and reward that little bit easier. That's mainly because they offer you access to a range of different risk levels and investment styles.

Please note though, the value of a MyFolio Fund can fall as well as rise. Even the lowest risk fund can still fall in value.

Selecting the right risk level

Each MyFolio Fund is designed to closely match a different attitude to risk as shown in the table on the right.

When you select the risk level that's right for you, you should be aware that the fund will always be managed to meet that level of risk. So, a higher risk level will have a similar market exposure when markets are falling as when they are rising. The proportion of assets (for example equities or bonds) in the fund will not significantly change as market conditions change.

Generally, the higher the risk the greater the potential return, but at the same time the lower the risk the lower the potential return. The value of a MyFolio Fund can fall as well as rise. Even the lowest risk fund can still fall in value.

Choice of risk levels

MyFolio I

This investment option is designed for a customer who is conservative with their investments. They prefer taking a small amount of risk to achieve modest or relatively stable returns. They accept there may be some short term periods of fluctuation in value.

MyFolio II

This investment option is designed for a customer who is relatively cautious with their investments. They want to try to achieve a reasonable return, and are prepared to accept some risk in doing so. Typically these portfolios will exhibit relatively modest yet frequent fluctuations in value.

MyFolio III

This investment option is designed for a customer with a balanced attitude to risk. They don't seek risky investments but don't avoid them either. They are prepared to accept fluctuations in the value of their investments to try and achieve better long term returns. Their investments may be subject to frequent and at times significant fluctuations in value.

MyFolio IV

This investment option is designed for customers who are relatively comfortable with investment risk. They aim for higher long term returns and understand that this can also mean some sustained periods of poorer performance. They are prepared to accept significant fluctuations in value to try and achieve better long term returns.

MyFolio V

This investment option is designed for customers who are very comfortable with investment risk. They aim for high long term investment returns and do not overly worry about periods of poorer performance in the short to medium term. Ordinarily these portfolios can be subject to the full extent and frequency of stock market fluctuations.

Managed, reviewed and rebalanced for you

The different assets in the fund will all perform differently.

So, the team of investment experts at Standard Life Investments regularly review the proportion of each asset held in the fund. If appropriate, the funds may be rebalanced. This means that they change the proportion of assets to make sure the fund stays in line with its original risk level.

Choice of risk level if your circumstances change

As there are 5 different levels of risk to choose from, if your attitude towards risk and reward or your goals change, you can simply switch to another MyFolio Fund that offers a higher or lower risk level. Your adviser will be able to help if you are unsure which level to choose.

Choice of investment styles

There are three to choose from. All are managed by Standard Life Investments. Your adviser can recommend the right style for you.

Standard Life MyFolio Market Funds

Invest in mostly passive (known as tracker) funds covering many different types of assets. They are supplied and managed by a select number of large, highly regarded providers of passive funds. Passive or tracker funds generally aim to replicate (or track) the performance of an index such as the FTSE All Share*, before fund charges. This means that they will follow the market down as well as up. To broaden the range of assets, the MyFolio Market Funds will also invest in some actively managed property funds. This is the lowest cost MyFolio style as there is limited active fund management.

Standard Life MyFolio Managed Funds

Are actively managed funds that invest in many different types of assets, mainly in funds managed by Standard Life Investments. Standard Life Investments is one of Europe's leading investment managers with a track record across the major asset classes and strategies, such as equities, property, bonds and absolute returns. Standard Life MyFolio Managed Funds are competitively priced actively managed funds.

Standard Life MyFolio Multi-Manager Funds

Are actively managed funds that invest in many different asset classes and styles, including equities, property, bonds and absolute returns from a select group of leading fund managers. We have carried out in-depth research to identify funds we think are amongst the best in the industry and brought them together into this MyFolio style.

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With a range of investment styles to choose from, you feel more in control.

MyFolio features

- Diverse range of asset classes in each ‘portfolio’ including stocks and shares (equities), bonds and property which can help to spread the risk
- Designed to fit 5 different risk levels, from lower to higher
- Choice of investment styles
- Monitored, reviewed and rebalanced
- Access to the long-standing investment experience and expertise of Standard Life Investments.

Important information

There are different styles of investing with Standard Life MyFolio Funds. To make sure you get the right style for your needs and attitude to risk, it’s important to speak to your adviser before you make any decision.

Important information

Additional information we think you should be aware of

As with all investments, there are risks associated with investing in the MyFolio Funds. They are shown below. Please do take the time to read these risks, it is important you understand them. Some of the risks may use terminology you may not be as familiar with. If this is the case, please ask your adviser to explain them to you.

As all the MyFolio Funds are multi-asset investments the relevance of these specific risks will depend on the specific MyFolio Fund and associated risk level chosen.

General risks

The value of a fund can go down as well as up, and is not guaranteed. You may receive back less than the amount originally invested.

Past performance is not a guide to the future.

A fund can invest in collective investment schemes which can themselves invest in a diverse range of other assets. The fund may not have any control over the activities of any collective investment scheme invested in by the fund. These underlying assets may vary from time to time but each category of asset (which may include equities, bonds or immoveable property) has individual risks associated with them. If the value of a fund falls significantly, it may not be possible to maintain the same diversification of risk as the fund may hold a narrower range of assets.

Risk factors

1. **Market risk** is the risk that market conditions can negatively impact investment returns. For instance, the prices of securities are dependent on general supply and demand that fluctuates independently of any security in particular. Market risk is generally dependent on economic conditions, such as inflation, consumer sentiment, or credit availability.
2. **Emerging markets** tend to be more volatile than more established stock markets and therefore your investment may be subject to greater risk. Political and economic conditions should also be taken into account.

   The reliability of trading and settlement systems in some emerging markets may not be equal to that available in more developed markets, which may result in delays in realising investments within the funds.
3. **Currency risk** means investments may be made in assets denominated in various currencies, and movements in exchange rates may have a separate effect on the value of and the returns from such investments.
4. **Financial risk or default/credit risk** is the risk that a business will not be able to make payments due to its debt load. Interest and principal must be paid on borrowed money – failure to make payments can force the business into bankruptcy. A business with large amounts of debt relative to income does not have much reserve for unexpected expenses or lower income, and can fail if the economy sours or if it encounters some other factor that lowers income or increases expenses.

   Funds investing in corporate bonds are therefore subject to default on the interest owed and/or the ability of the bond issuer to return capital on the redemption date.

   The risk of this happening is usually higher with bonds classified as ‘sub-investment grade’. These may produce a higher level of income but at a higher risk than investments in ‘investment grade’ bonds. In turn, this may have an adverse impact on funds that invest in such bonds.

   The yields offered by funds investing in fixed interest securities reflect, in part, the risk rating of the issuers of these securities.

5. **Interest rate risk** is a risk that lowers yields or returns due to changes in the prevailing interest rate. Interest rate risk can affect different securities in different ways. The price of bonds in the secondary market, for instance, varies inversely to interest rates i.e. when interest rates rise, the price of bonds drops, and vice versa.

6. **Inflation risk** is a risk that lessens real returns due to the decreasing purchasing power of the returns.

7. **Liquidity risk** is the risk that an investment cannot be sold quickly for a reasonable price. Real estate or property, for instance, is an illiquid investment because it can take considerable time to sell unless it is sold below market value. Other markets can also be less liquid and therefore can be more volatile, such as smaller companies securities or emerging markets.

8. **Property risk** occurs as the valuation of property is a matter of judgment by an independent valuer. The value of capital and income will fluctuate as property values and rental incomes rise and fall.

   Where investment in property is made, either directly or indirectly, it should be noted that due to the nature of these assets, significant volatility may be experienced during times of extreme market turmoil.

   The underlying investments of property funds can generally be less liquid than equities or bonds and, as such, purchases and sales may be a long and uncertain process. At times, cash may remain uninvested if it proves difficult to make purchases. Equally, there may be times when property has to be sold quickly and for less than expected.

9. **Business risk** is any risk that can lower a business's net assets or net income that could, in turn, lower the return of any security based on it. Some business risks are sector risks that can affect every company in a particular sector, while some business risks affect only a particular company. Higher mortgage rates can increase the business risk for real estate or construction companies, for instance. However, even similar businesses can have widely different risks depending on the quality of management and the resources that are available to the business.

10. **Event risk** is the risk of an event that can have an impact on the potential return of an investment. Generally, event risk is risk that affects a single company and its securities, such as the loss of a major lawsuit or an accounting scandal. Sometimes event risk can affect a number of securities, such as the political risk that a country will do something that will drive down the prices of any securities issued by companies located in there, such as increasing taxes, discouraging foreign investment, or in extreme cases, nationalising the companies without proper compensation.

11. **Tax risk** is the risk that a taxing authority will change tax laws which could have a negative impact on investment. Higher taxes on investment income reduce real returns and can lower the prices of investments in the secondary markets. Higher taxes on businesses will lower their net income, which will usually lower the stock price, and may lower its bond prices in the secondary market if their credit rating is lower as a result of the lower income.

12. **Absolute return risks** is with regards to the funds (except the MyFolio Market range) invested in absolute return funds. In order to achieve their return objectives, absolute return funds may use derivatives extensively. Derivatives can lead to increased risk due to the potential for large losses, relative to the small financial outlay, and through counterparty risk (default of the other party in a derivative contract). In addition, absolute return funds can use derivatives to establish 'short' positions in individual markets and assets, which carry inherent risk but also gives the potential to benefit if the value of the market/asset falls. Given these risks, extensive oversight and a robust risk management process is required. It is also important not to confuse absolute return funds with guaranteed funds or products which guarantee a positive nominal return over any period.

Pensions Savings Investments Insurance

Find out more

Talk to your financial adviser for advice on any information contained within this document or on how to plan for your financial future.

www.standardlife.co.uk