

Your guide to

# Our Funds



**NFU Mutual**

# Your guide to our funds

**This guide is intended to introduce you to our funds and help you decide which ones may be suitable for you to invest in. We don't offer all of the funds on all of our products. The individual fund pages in this guide show which products offer this fund choice.**

The individual fund pages in this guide explain any risks that are specific to investing in that fund. You must also read the Key Features Document for the product you're buying. This explains the product's aims, what you're committing to, any risks involved and how it works.

You may not be familiar with some of the words we use in the guide, so we've included a jargon buster at the back to help explain words shown in *italics*.

You can get information about daily fund prices on our website [www.nfumutual.co.uk](http://www.nfumutual.co.uk). Fund prices for the With-Profits Fund aren't available on the website, for details you can contact us on 0800 622323

This guide covers the following products:

## Investments

Capital Investment Bond  
Flexibond

## Pensions

Additional Voluntary Contributions Plan  
Group Personal Pension Plan  
Managed Fund Plan  
Stakeholder Pension Plan  
Trustee Investment Plan

This guide doesn't cover our: Capital Access Bond, NFU Mutual Classic Bond, NFU Mutual Vintage Bond, Shrewd Savings Plan ISA, With-Profits Personal Pension Plan or our OEIC products (Stocks and Shares ISA and Portfolio Investment Plan). If you would like information about any of them, ask your NFU Mutual Financial Consultant for the document reference shown in brackets below:

- Capital Access Bond – Key Features Document (KFD/CAB)
- NFU Mutual Classic Bond - Key Features Document (KFD/CLA)
- NFU Mutual Vintage Bond - Key Features Document (KFD/VIN)
- Shrewd Savings Plan ISA – Key Features Document (KFD/SSP)
- With-Profits Personal Pension Plan – Key Features Document (KFD/WPP)
- OEIC – Simplified Prospectus (SP)

Or you can:



call us on 0800 622323



write to us at:

NFU Mutual, Life Services,  
Tiddington Road, Stratford upon Avon,  
Warwickshire CV37 7BJ.

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# How do I decide which funds to invest in?

- The funds you choose will depend on your attitude to risk and return. Quite simply, the more risk you're willing to take, the greater your potential for higher returns, but there's also a greater chance of losing money or seeing a change in any income you receive.
- Your fund choice will also depend on whether you want growth on your investment or income from your money. For example you may want a regular investment income to top up your income if you no longer receive a wage.
- The length of time you plan to invest for should influence your attitude to risk, and therefore your potential return. For example, if you wish to invest for 25 years you may be willing to take on more risk for a potentially higher return. But if you're only looking to invest for 5 years, you may be looking for a lower risk investment.
- The Risk Meter diagram opposite will help you decide which risk category you fit into. The aim is to help you decide how you look at risk and your goals for investing your money. It's important that you think carefully about the different risks outlined and decide which risk category best suits your circumstances.
- Each of the funds covered in this guide fits into one of the risk categories shown in the Risk Meter. Throughout the guide we've grouped the funds into their corresponding risk categories, starting off with the high risk category and moving on to the lower risk categories.
- We review the risk categories of our funds from time to time. It's possible that a fund could move to a higher or lower risk category in future.
- Your own circumstances will also change over time. It's important to review your investments regularly, to make sure they remain compatible with your aims and your attitude to risk.

# RISK METER

## HIGH RISK

### TYPICAL INVESTMENTS

- *Financial derivatives*
- Works of art

### High risk

- You're looking for maximum returns on your investment and are willing to accept a high level of risk, with the possibility of large changes in the value of your investment and/or income you receive.
- You choose and control investment decisions, with an emphasis on speculation.
- You accept that you could lose some or all of your money.

### TYPICAL INVESTMENTS

- Shares in newly formed companies

### Medium / High risk

- You're willing to accept a significant level of risk, with the possibility of changes in the value of your investment and/or income you receive.
- You're looking for the potential of good returns.
- You're happy to invest fully or heavily in *equities*.
- You accept the possibility of extreme changes in the value of investments.

- *Portfolio* of shares, either UK or overseas

### Medium risk

- You're prepared to accept risk to your money, with the possibility of some changes in the value of your investment and/or income you receive.
- You're looking for the potential of good returns.

- Balanced mixture of shares, *fixed rate securities*, property and cash

### Low / Medium risk

- You're comfortable with some risk to your money.
- You want less unpredictability about changes in the value of your investment and/or income than in the Medium, Medium/High or High risk categories.
- You accept that other types of investment may provide the potential for better returns.

- A more cautious mixture of shares, *fixed rate securities*, property and cash than that of the Medium risk
- *Investment grade corporate bonds*

- With-Profits Funds
- *Gilts*

### Low risk

- You want a low level of risk.
- You accept the potential for growth is low.
- You accept that the value of your savings may not keep pace with inflation.
- You plan to invest your money for less than five years.

- Bank deposits
- National savings

- Building society accounts
- Insurance company deposit funds

## LOW RISK

# Global Developing Markets Fund – High Risk



## Investment objective

To achieve long-term capital growth through *diversified* exposure to emerging markets of the world.

## Investment policy

The Global Developing Markets Fund invests in the NFU Mutual *OEIC* Global Developing Markets Fund, managed by N.F.U. Mutual Unit Managers Limited, to achieve long-term capital growth by investing 80% or more of the assets directly or indirectly in emerging markets as defined by the World Bank, without geographical restriction. The fund will invest mainly in *equity securities*. The fund may use *financial derivatives* but only for *hedging* or *efficient portfolio management* purposes.

The charges and tax for the NFU Mutual Global Developing Markets Fund are different to those for the NFU Mutual *OEIC* Global Developing Markets Fund. This means that the prices quoted in the press or marketing literature will be different. However, the amount you receive is directly linked to the performance of the NFU Mutual *OEIC* Global Developing Markets Fund.

The NFU Mutual *OEIC* Global Developing Markets Fund will invest in assets some of which themselves have annual management charges. The effect of these charges, which may change over time, is reflected in your illustration, and is currently estimated to be 0.03% per year.

## Fund specific risks

### Currency exchange rates risk

Values can go up and down due to changes in currency exchange rates.

### Inflation rate risk

While the fund's returns are likely to keep pace with inflation over the long-term, this is not guaranteed.

### Investment in emerging markets risk

Investment values can move sharply down or up, as emerging markets tend to be smaller, less *liquid*, less regulated and less developed.

### Market movements risk

The value of assets held in the fund may go down if investment markets fall.

### Investment in smaller companies risk

The market for these is smaller than for larger companies, and they may be less *liquid* so price changes may be greater.

## Products offering this fund

### Investments

- Flexibond

### Pensions

- Trustee Investment Plan

# International Fund – Medium/High Risk



## Investment objective

To provide long-term growth by investing overseas.

## Investment policy

To invest in a number of *stocks* throughout the world. The fund is biased towards the world's major *equity* markets. Investments can also be made in the smaller markets, which can be more unstable, but can also produce good returns.

## Fund specific risks

### Currency exchange rates risk

Values can go up and down due to changes in currency exchange rates.

### Inflation rate risk

While the fund's returns are likely to keep pace with inflation over the long-term, this is not guaranteed.

### Investment in emerging markets risk

Investment values can move sharply down or up, as emerging markets tend to be smaller, less *liquid*, less regulated and less developed.

### Market movements risk

The value of assets held in the fund may go down if investment markets fall.

### Investment in smaller companies risk

The market for these is smaller than for larger companies, and they may be less *liquid* so price changes may be greater.

## Products offering this fund

### Investments

- Capital Investment Bond\*
- Flexibond

### Pensions

- Additional Voluntary Contributions Plan
- Group Personal Pension Plan
- Managed Fund Plan\*
- Stakeholder Pension Plan
- Trustee Investment Plan

\*Only accepts additional investments from investors into their existing bond/plan.

# Managed Fund – Medium/High Risk



## Investment objective

To maximise long-term growth from the investment.

## Investment policy

To invest in one or more of our other funds with a view to maximising the long-term return. The mix of funds is managed and regularly monitored by our investment team. The fund is mainly exposed to UK and overseas *equity* markets and will therefore reflect the unpredictability of those markets, but could also be invested in other assets.

## Fund specific risks

### Currency exchange rates risk

Values can go up and down due to changes in currency exchange rates.

### Inflation rate risk

While the fund's returns are likely to keep pace with inflation over the long-term, this is not guaranteed.

### Market movements risk

The value of assets held in the fund may go down if investment markets fall.

### Investment in smaller companies risk

The market for these is smaller than for larger companies, and they may be less *liquid* so price changes may be greater.

## Products offering this fund

### Investments

- Flexibond

### Pensions

- Stakeholder Pension Plan
- Trustee Investment Plan

# Property Fund – Medium/High Risk



## Investment objective

To provide long-term growth by investing in property related shares and/or property.

## Investment policy

To invest in a selection of UK property and property related shares. The valuation will reflect UK property and stock market values. However, the fund does not currently invest directly in property.

## Fund specific risks

### **Concentrated *portfolio* risk**

The fund may invest in a small number of *stocks* from a limited number of companies, or may invest heavily in specific types of companies, sectors or regions. This is riskier than investing from a wider range of companies, sectors or regions.

### **Inflation rate risk**

While the fund's returns are likely to keep pace with inflation over the long-term, this is not guaranteed.

### **Interest rate changes risk**

Property company share values will move significantly with major changes in interest rates, as expectations of future profitability vary.

### **Liquidity risk**

Although the fund will invest in readily saleable investments, there's no guarantee the fund will be able to sell such investments quickly, or at a price which reasonably reflects the underlying value of the investments.

### **Market movements risk**

The value of assets held in the fund may go down if investment markets fall.

### **Property risk (bricks and mortar)**

Sometimes properties aren't easy to sell, so we may need to delay cashing in or switching units for up to 12 months. The value of property depends on the individual views of the valuers.

### **Investment in smaller companies risk**

The market for these is smaller than for larger companies, and they may be less *liquid* so price changes may be greater.

## Products offering this fund

### **Pensions**

- Additional Voluntary Contributions Plan
- Group Personal Pension Plan
- Managed Fund Plan\*
- Stakeholder Pension Plan
- Trustee Investment Plan

\*Only accepts additional investments from investors into their existing plan.

# UK Equity Fund – Medium/High Risk



## Investment objective

To provide long-term growth by investing in *UK quoted company stocks* and shares.

## Investment policy

The *portfolio* invests predominantly in *blue-chip* companies.

## Fund specific risks

### Inflation rate risk

While the fund's returns are likely to keep pace with inflation over the long-term, this is not guaranteed.

### Market movements risk

The value of assets held in the fund may go down if investment markets fall.

## Products offering this fund

### Investments

- Capital Investment Bond\*
- Flexibond

### Pensions

- Additional Voluntary Contributions Plan
- Group Personal Pension Plan
- Managed Fund Plan\*
- Stakeholder Pension Plan
- Trustee Investment Plan

\*Only accepts additional investments from investors into their existing bond/plan.

# UK Equity Income Fund – Medium/High Risk



## Investment objective

To achieve increasing income with some capital growth by investing in the shares of a range of UK companies listed on the London Stock Exchange and operating in those market sectors forecast to generate stable and growing income.

## Investment policy

The UK Equity Income Fund invests in the NFU Mutual *OEIC* UK Equity Income Fund managed by N.F.U. Unit Managers Limited. The fund will invest at least 80% of its assets in *equities* quoted on the UK stock market with a target net of tax yield on the underlying *portfolio* of at least 110% of the *FTSE* All Share yield. The fund may use *financial derivatives* but only for *hedging* or *efficient portfolio management purposes*.

The charges and tax applied to the NFU Mutual UK Equity Income Fund are different to those applied to the NFU Mutual *OEIC* UK Equity Income Fund. This means that the prices quoted in the press or marketing literature will be different. However, the amount you receive is directly linked to the performance of the NFU Mutual *OEIC* Equity Income Fund.

## Fund specific risks

### Inflation rate risk

While the fund's returns are likely to keep pace with inflation over the long-term, this is not guaranteed.

### Market movements risk

The value of assets held in the fund may go down if investment markets fall.

### Investment in smaller companies risk

The market for these is smaller than for larger companies, and they may be less *liquid* so price changes may be greater.

## Products offering this fund

### Investments

- Flexibond

### Pensions

- Trustee Investment Plan

# Mixed Fund – Medium Risk



## Investment objective

To achieve balanced long-term growth.

## Investment policy

To invest in a combination of our other funds, to maintain a spread across types of investment. The mix of funds is managed and regularly monitored by our investment team. The fund will be exposed to the world's investment markets.

## Fund specific risks

### Credit risk

The risk that the issuers of *fixed interest rate or index-linked securities* may default on their payment obligations.

### Currency exchange rates risk

Values can go up and down due to changes in currency exchange rates.

### Inflation rate risk

While the fund's returns are likely to keep pace with inflation over the long-term, this is not guaranteed.

### Interest rate changes risk

*Gilts* and *corporate bonds* held by the fund will be affected by general changes in interest rates. When interest rates fall the value of the fund's investments in *fixed interest rate securities* can be expected to rise, and when interest rates rise the value of those investments can be expected to fall.

### Market movements risk

The value of assets held in the fund may go down if investment markets fall.

### Investment in smaller companies risk

The market for these is smaller than for larger companies, and they may be less *liquid* so price changes may be greater.

## Products offering this fund

### Investments

- Capital Investment Bond\*
- Flexibond

### Pensions

- Additional Voluntary Contributions Plan
- Group Personal Pension Plan
- Managed Fund Plan\*
- Stakeholder Pension Plan
- Trustee Investment Plan

\*Only accepts additional investments from investors into their existing bond/plan.

# Cautious Managed Fund – Low/Medium Risk



## Investment objective

The investment objective of the Cautious Managed Fund is to generate some potential long term capital growth and stable income.

## Investment policy

The Cautious Managed Fund invests in the NFU Mutual Portfolio Funds *OEIC* Cautious Portfolio Fund, managed by N.F.U. Mutual Unit Managers Limited. The Cautious Portfolio Fund will invest principally in other funds managed by N.F.U. Mutual Unit Managers Limited with the balance invested in third party funds with compatible objectives. It is intended that through N.F.U. Mutual Unit Managers Limited funds and these other funds, the fund will gain exposure to a mix of UK and International *equities, fixed income stocks, cash* and property. The fund will typically maintain 25% – 35% exposure to UK companies and a similar proportion in *fixed income stocks* with the balance in International *equities, property and cash*.

The charges and tax for the NFU Mutual Cautious Managed Fund are different to those for the NFU Mutual Portfolio Funds *OEIC* Cautious Portfolio Fund. This means that the prices quoted in the press or marketing literature will be different. However, the amount you will receive is directly linked to the performance of the NFU Mutual Portfolio Funds *OEIC* Cautious Portfolio Fund.

The NFU Mutual Portfolio Funds *OEIC* Cautious Portfolio Fund will invest in assets some of which themselves have annual management charges. The effect of these charges, which may change over time, is reflected in your illustration, and is currently estimated to be 0.09% per year.

## Fund specific risks

### Credit risk

The risk that the issuers of *fixed income stocks* may default on their payment obligations.

### Currency exchange rates risk

Values can go up and down due to changes in currency exchange rates.

### Interest rate changes risk

The fund will be affected by general changes in interest rates. When interest rates fall the value of the fund's investments in *fixed income stocks* can be expected to rise, and when interest rates rise the value of those investments can be expected to fall.

### Inflation rate risk

The fund's investment returns may not keep pace with inflation.

### Market movements risk

The value of assets held in the fund may go down if investment markets fall. The fund may invest up to 60% in UK and International *equities*.

### Property risk (bricks and mortar)

Sometimes properties aren't easy to sell, so we may need to delay cashing in or switching units for up to 12 months. The value of property depends on the individual views of the valuers.

### Investment in smaller companies risk

The market for these is smaller than for larger companies, and they may be less *liquid* so price changes may be greater

## Products offering this fund

### Investments

– Flexibond

### Pensions

– Trustee Investment Plan

# Fixed Interest Fund – Low/Medium Risk



## Investment objective

To provide a return from a *portfolio* investing mainly in *gilts* and *investment grade corporate bonds*.

## Investment policy

The fund will invest in a *portfolio of bonds* and other *fixed and floating rate securities* denominated mainly in sterling and issued by governments, government agencies, *supra-national* and *corporate issuers* (including *preference shares*).

## Fund specific risks

### Credit risk

The risk that the issuers of *fixed and floating rate securities* may default on their payment obligations.

### Inflation rate risk

The fund's investment returns may not keep pace with inflation.

### Interest rate changes risk

*Gilts* and *corporate bonds* held by the fund will be affected by general changes in interest rates. When interest rates fall the value of the fund's investments in *fixed interest rate* securities can be expected to rise, and when interest rates rise the value of those investments can be expected to fall.

### Market movements risk

The value of assets held in the fund may go down if investment markets fall.

## Products offering this fund

### Investments

- Capital Investment Bond\*
- Flexibond

### Pensions

- Additional Voluntary Contributions Plan
- Group Personal Pension Plan
- Managed Fund Plan\*
- Stakeholder Pension Plan
- Trustee Investment Plan

\*Only accepts additional investments from investors into their existing bond/plan.

# Index-Linked Fund – Low/Medium Risk



## Investment objective

To provide a return from a *portfolio* investing predominantly in *index-linked bonds*.

## Investment policy

The fund will invest in a *portfolio* investing in *index-linked* government or *investment grade* corporate *index-linked securities* denominated mainly in sterling, to provide a total return related to inflation linked income and *redemption payments*.

## Fund specific risks

### Credit risk

The risk that issuers of *index-linked securities* may default on their payment obligations.

### Inflation rate risk

The fund's investment returns are designed to keep pace with inflation, however this is not guaranteed. Values will also be influenced by expectations of future inflation.

### Interest rate changes risk

*Index-linked securities* held by the fund will be affected by general changes in interest rates. When interest rates fall the value of the fund's investments in *index-linked securities* can be expected to rise, and when interest rates rise the value of those investments can be expected to fall.

### Market movements risk

The value of assets held in the fund may go down if investment markets fall.

## Products offering this fund

### Pensions

- Additional Voluntary Contributions Plan
- Group Personal Pension Plan
- Managed Fund Plan\*
- Stakeholder Pension Plan
- Trustee Investment Plan

\*Only accepts additional investments from investors into their existing plan.

# With-Profits Fund – Low/Medium Risk



## Investment objective

### How it works for the Flexibond

We invest your money with the aim of achieving long-term growth. Returns on your investment are smoothed out over time, as we keep back some of the growth from good years to boost returns in poor years. Although returns are smoothed, values can still change sharply, so it's not suitable as a short-term (0-5 years) investment.

## Investment policy

We invest your money, together with that of all of our With-Profits policyholders, in a wide range of investments including shares, commercial property, *fixed interest rate and index-linked securities*.

At least once a year we decide whether we can add a bonus, and if so how much. We don't guarantee the size of future bonuses because they depend on any future profits we might make. We may have to cut bonus rates in future.

If we decide to add a bonus, we increase the price of the With-Profits Fund units. When you cash in units or transfer part of your investment from the With-Profits Fund into one of the other funds, we may add a final bonus to reflect the overall growth in your fund.

## Fund specific risks

### Important information about the market value reduction (MVR)

The aim of the MVR is to ensure that people who leave their money invested in poor years do not lose out because other people take their money out of the With-Profits Fund. When you take money out of the With-Profits Fund or transfer into one of the other funds, we may have to reduce the value of your investment by applying the MVR.

For example, this might occur:

- after a large fall in the stock market.
- after a run of poor years.
- when the stock market is at a low level relative to when your investment was made.

We guarantee that the MVR will not apply:

- on the death of the person whose life is insured.
- on regular withdrawals of up to 10% (of the original investments) per policy year.

### How does the MVR work?

When you invest in the With-Profits Fund we create two types of unit for you.

**With-Profits Fund units** – the value of With-Profits Fund units may grow by bonuses being added.

**Shadow Fund units** – these represent your share of the With-Profits Fund. The value of these units goes up and down with the value of the underlying investments.

If the value of your Shadow Fund units is lower than the value of your corresponding With-Profits Fund units and we pay you the full value of the With-Profits Fund units, we would have paid you more than your investment is really worth.

The MVR ensures we don't pay out too much to people who cash in at such times.

We don't currently use the MVR unless the value of your Shadow Fund units is less than 90% of the value of your corresponding With-Profits Fund units.

# With-Profits Fund – Low/Medium Risk



If the value of your Shadow Fund units is 85% or less of the value of your corresponding With-Profits Fund units, we will pay you the value of the Shadow Fund units.

If the value of your Shadow Fund units is between 85% and 90% of the value of your corresponding With-Profits Fund units, we will pay you an amount between the value of the Shadow Fund units and the value of the With-Profits Fund units.

We can change the ‘trigger points’ of 85% and 90%. We will notify you as soon as reasonably practical after we make the change.

## **Example 1:**

Value of With-Profits Fund units = £100,000

Value of Shadow Fund units = £90,000

We will not use the MVR in this example, as the value of the Shadow Fund units is not less than 90% of the value of the With-Profits Fund units. So we would pay you £100,000 if you cashed in your With-Profits Fund units

## **Example 2:**

Value of With-Profits Fund units = £100,000

Value of Shadow Fund units = £85,000

We will use the MVR in full in this example, as the value of the Shadow Fund units is 85% of the value of the With-Profits Fund units. So we would pay you £85,000 if you cashed in your With-Profits Fund units

## **Example 3:**

Value of With-Profits Fund units = £100,000

Value of Shadow Fund units = £87,500

The value of the Shadow Fund units is half way between 85% and 90% of the value of the With-Profits Fund units, so the effect of the MVR is reduced by half:  $£12,500/2 = £6,250$ . We would pay you £93,750 if you cashed in your With-Profits Fund units.

## **Other risks**

We’ve already made promises to some of our With-Profits customers. We expect to pay the costs of meeting these from our free assets (the amount by which our assets are more than our liabilities). If we cannot, this will affect the level of profits available for all With-Profits policyholders.

## **More information**

The guide starting on page 22 gives you more details of how this fund works and how we calculate any bonuses. There’s a more detailed version, called Principles and Practices of Financial Management available on our website, [www.nfumutual.co.uk](http://www.nfumutual.co.uk).

# With-Profits Fund – Low/Medium Risk



## Investment objective

### How it works for the Capital Investment Bond

We invest your money with the aim of achieving long-term growth. Returns on your investment are smoothed out over time, as we keep back some of the growth from good years to boost returns in poor years. Although returns are smoothed, values can still change sharply, so it's not suitable as a short-term (0-5 years) investment.

## Investment policy

We invest your money, together with that of all of our With-Profits policyholders, in a wide range of investments including shares, commercial property, *fixed interest rate and index-linked securities*.

At least once a year we decide whether we can add a bonus, and if so how much. We don't guarantee the size of future bonuses because they depend on any future profits we might make. We may have to cut bonus rates in future.

If we decide to add a bonus, we add bonus units to your investment.

When you cash in units or transfer part of your investment from the With-Profits Fund into one of the other funds, we may add a final bonus to reflect the overall growth in your fund.

## Fund specific risks

### Important information about the market value reduction (MVR)

The aim of the MVR is to ensure that people who leave their money invested in poor years do not lose out because other people take their money out of the With-Profits Fund. When you take money out of the With-Profits Fund or transfer into one of the other funds, we may have to reduce the value of your investment by applying the MVR.

For example, this might occur:

- after a large fall in the stock market.
- after a run of poor years.
- when the stock market is at a low level relative to when your investment was made.

We guarantee that the MVR will not apply:

- on the death of the person whose life is insured.
- on the 10th anniversary of your original investment in the Capital Investment Bond.

### How does the MVR work?

When you invest in the With-Profits Fund we create two types of unit for you.

**With-Profits Fund units** – the value of With-Profits Fund units may grow by bonuses being added.

**Shadow Fund units** – these represent your share of the With-Profits Fund. The value of these units goes up and down with the value of the underlying investments.

If the value of your Shadow Fund units is lower than the value of your corresponding With-Profits Fund units and we pay you the full value of the With-Profits Fund units, we would have paid you more than your investment is really worth.

The MVR ensures we don't pay out too much to people who cash in at such times.



We don't currently use the MVR unless the value of your Shadow Fund units is less than 90% of the value of your corresponding With-Profits Fund units.

If the value of your Shadow Fund units is 85% or less of the value of your corresponding With-Profits Fund units, we will pay you the value of the Shadow Fund units.

If the value of your Shadow Fund units is between 85% and 90% of the value of your corresponding With-Profits Fund units, we will pay you an amount between the value of the Shadow Fund units and the value of the With-Profits Fund units.

We can change the 'trigger points' of 85% and 90%. We will notify you as soon as reasonably practical after we make the change.

**Example 1:**

Value of With-Profits Fund units = £100,000

Value of Shadow Fund units = £90,000

We will not use the MVR in this example, as the value of the Shadow Fund units is not less than 90% of the value of the With-Profits Fund units. So we would pay you £100,000 if you cashed in your With-Profits Fund units.

**Example 2**

Value of With-Profits Fund units = £100,000

Value of Shadow Fund units = £85,000

We will use the MVR in full in this example, as the value of Shadow Fund units is 85% of the value of the With-Profits Fund units. So we would pay you £85,000 if you cashed in your With-Profits Fund units.

**Example 3:**

Value of With-Profits Fund units = £100,000

Value of Shadow Fund units = £87,500

The value of the Shadow Fund units is half way between 85% and 90% of the value of the With-Profits Fund units, so the effect of the MVR is reduced by half:  $\frac{£12,500}{2} = £6,250$ . We would pay you £93,750 if you cashed in your With-Profits Fund units.

**Other risks**

We've already made promises to some of our With-Profits customers. We expect to pay the costs of meeting these from our free assets (the amount by which our assets are more than our liabilities). If we cannot, this will affect the level of profits available for all With-Profits policyholders.

**More information**

The guide starting on page 22 gives you more details of how this fund works and how we calculate any bonuses. There's a more detailed version, called Principles and Practices of Financial Management available on our website, [www.nfumutual.co.uk](http://www.nfumutual.co.uk).

# With-Profits Fund – Low/Medium Risk



## Investment objective

### How it works for pensions

- Additional Voluntary Contributions Plan
- Group Personal Pension Plan

We invest your money with the aim of achieving long-term growth. Returns on your investment are smoothed out over time, as we keep back some of the growth from good years to boost returns in poor years. Although returns are smoothed, values can still change sharply, so it's not suitable as a (0-5 years) investment.

## Investment policy

We invest your money, together with that of all of our With-Profits policyholders, in a wide range of investments including shares, commercial property, *fixed interest rate and index-linked securities*.

At least once a year we decide whether we can add a bonus, and if so how much. We don't guarantee the size of future bonuses because they depend on any future profits we might make. We may have to cut bonus rates in future.

If we decide to add a bonus, we add bonus units to your pension plan. When you take pension benefits or transfer part of your investment from the With-Profits Fund, we may add a final bonus to reflect the overall growth in your fund.

## Fund specific risks

### Important information about the market value reduction (MVR)

The aim of the MVR is to ensure that people who leave their money invested in poor years do not lose out because other people take their money out of the With-Profits Fund. When you take money out of the With-Profits Fund or transfer into one of the other funds, we may have to reduce the value of your investment by applying the MVR.

For example, this might occur:

- after a large fall in the stock market.
- after a run of poor years.
- when the stock market is at a low level relative to when your investment was made.

We guarantee that the MVR will not apply:

- on your death.
- on your chosen retirement date. This date is specified in the schedule to the policy document of a unitised with-profits pension policy, as the date on which benefits become payable. You can change your chosen retirement date at any time – however, if you are invested in the With-Profits Fund, the new retirement date must be at least five years after the date the change is made. For an Additional Voluntary Contributions Plan your employer may have selected the chosen retirement date and can insist you can only take the plan benefits at the same time as you take benefits from the employer's scheme.

If you buy your pension income or transfer your plan in the three years before your chosen retirement date, it's our current practice only to apply a proportion of the MVR. This is so that you have some protection from the MVR as you get close to your planned retirement.

### How does the MVR work?

When you invest in the With-Profits Fund we create two types of unit for you.

**With-Profits Fund units** – the value of With-Profits Fund units may grow by bonuses being added.

**Shadow Fund units** – these represent your share of the With-Profits Fund. The value of these units goes up and down with the value of the underlying investments. If the value of your Shadow Fund units is lower than the value of your corresponding With-Profits Fund units and we pay you the full value of the With-Profits Fund units, we would have paid you more than your investment is



really worth.

The MVR ensures we don't pay out too much to people who cash in at such times.

We don't currently use the MVR unless the value of your Shadow Fund units is less than 90% of the value of your corresponding With-Profits Fund units.

If the value of your Shadow Fund units is 85% or less of the value of your corresponding With-Profits Fund units, we will pay you the value of the Shadow Fund units.

If the value of your Shadow Fund units is between 85% and 90% of the value of your corresponding With-Profits Fund units, we will pay you an amount between the value of the Shadow Fund units and the value of the With-Profits Fund units.

We can change the 'trigger points' of 85% and 90%. We will notify you as soon as reasonably practical after we make the change.

#### **Example 1**

Value of With-Profits Fund units = £100,000

Value of Shadow Fund units = £90,000

We will not use the MVR in this example, as the value of the Shadow Fund units is not less than 90% of the value of the With-Profits Fund units. So your fund would be £100,000 if you took your pension.

#### **Example 2 – more than 3 years from your chosen retirement date**

Value of With-Profits Fund units = £100,000

Value of Shadow Fund units = £85,000

We will use the MVR in full in this example, as the value of the Shadow Fund units is 85% of the value of the With-Profits Fund units. So your fund would be £85,000 if you took your pension.

#### **Example 3**

Value of With-Profits Fund units = £100,000

Value of Shadow Fund units = £87,500

The value of the Shadow Fund units is half way between 85% and 90% of the value of the With-Profits Fund units, so the effect of the MVR is reduced by half:  $£12,500/2 = £6,250$ . So your fund would be £93,750 if you took your pension.

#### **Example 4 – 18 months from your chosen retirement date**

Value of With-Profits Fund units = £100,000

Value of Shadow Fund units = £87,500

Effect of MVR = £6,250

Value after MVR - £93,750

We will use a reduced MVR in this example, as this is within 3 years of your chosen retirement date. The effect of the MVR is reduced by  $\frac{1}{2}$  because 18 months is half way through the 3 year period:  $£6,250/2 = £3,125$ . So your fund would be £96,875 if you took your pension.

#### **Other risks**

We've already made promises to some of our With-Profits customers. We expect to pay the costs of meeting these from our free assets (the amount by which our assets are more than our liabilities). If we cannot, this will affect the level of profits available for all With-Profits policyholders.

#### **More information**

The guide starting on page 22 gives you more details of how this fund works and how we calculate any bonuses. There's a more detailed version, called Principles and Practices of Financial Management available on our website, [www.nfumutual.co.uk](http://www.nfumutual.co.uk).

# Deposit Fund – Low Risk



## Investment objective

To maintain capital stability by investing in secure *UK money market accounts*. The fund is an ideal temporary haven for your money while you're deciding where to invest it for the longer term. The fund isn't intended as a long-term investment.

## Investment policy

To place money on short-term deposit in the *UK money markets* to get competitive rates of interest. The return will reflect the short-term interest rates in the money markets.

## Fund specific risks

### Charges risk

When interest rates are low, the charges can be higher than the growth.

### Inflation rate risk

The fund's investment returns may not keep pace with inflation.

### Interest rate changes risk

Changes in interest rates will affect interest paid on deposits in *UK money market accounts*.

### Money market insolvency risk

The fund invests in money market assets, which includes deposits in banks and other financial institutions. If any of these get into financial difficulties or become insolvent, they may not pay back some or all of the amount invested in them. This could mean that you might not get back the full value of your investment.

## Products offering this fund

### Investments

- Capital Investment Bond\*
- Flexibond

### Pensions

- Additional Voluntary Contributions Plan
- Group Personal Pension Plan
- Managed Fund Plan\*
- Stakeholder Pension Plan
- Trustee Investment Plan

\*Only accepts additional investments from investors into their existing bond/plan.



# With-profits Investments

## A guide to unitised with-profits

### How will this guide help?

This guide explains how our with-profits fund works for our unitised with-profits contracts and will help you to decide whether this type of investment is right for you. Please keep it in a safe place with your other documents, to refer to in the future. It is also available on our website [www.nfumutual.co.uk](http://www.nfumutual.co.uk).

If you'd like more information on how we manage our with-profits fund please read our principles and practices of financial management, available at [www.nfumutual.co.uk](http://www.nfumutual.co.uk), or from our customer services team on 0800 622 323.

### Is this the right guide for you?

A with-profits investment can either be conventional or unitised. We call a with-profits policy unitised when your investment buys units in the with-profits fund.

NFU Mutual unitised with-profits policies include:

- Pension policies taken out after 30 June 1988
- Capital investment bonds (CIB)
- Flexibonds
- Shrewd savings plan ISAs
- NFU Mutual vintage bonds

If you need to check which type of policy you have, please call us on 0800 622 323.

This guide does not cover:

- Conventional with-profits contracts – when we guarantee to pay out an agreed amount when the policy matures. This could be a lump sum (the sum assured) or a series of payments (an annuity or pension)
- The capital access bond (CAB)
- With-profits annuities

### 1. What is a unitised with-profits policy?

A with-profits policy shares in the profits and losses of our with-profits fund. We call a with-profits policy unitised when your investment buys units in the with-profits fund.

We share our profits and losses by adding bonuses to your policy. As bonuses are added to your policy, valuable guarantees build up. These are described in section six “What do we guarantee?” and are a feature of a with-profits investment.

### The with-profits fund

When you invest in our with-profits policies, we pool the money with the money from other policyholders in the with-profits fund. The with-profits fund is invested in a wide range of assets including company shares, property and bonds. For more detail please read section two “What affects how much I get?”

Part of the with-profits fund covers the amount we owe to policyholders. The rest of the fund is called the estate and provides working capital for the fund. To find out more please see section nine “The estate and how we use it to manage your investment”.

## Smoothing

Smoothing is one of the unique features of a with-profits policy. Investment values can be volatile so the value of the with-profits fund can fluctuate considerably. Instead of simply sharing out what the fund makes or loses each year to policyholders, we even out some of the fluctuations. We describe this in section four “What is smoothing?”

## Guarantees

Unitised with-profits contracts offer guarantees of the minimum amount of money you will receive on death and certain other dates. This is explained in section six “What do we guarantee?”

## Payouts

The main factor that affects the amount your policy will pay out is what your share of the with-profits fund is worth. Your share depends on profits and losses earned by the fund over the period of your investment. We look at the share for groups of similar policies and use these results to help us decide the bonuses we will pay.

## 2. What affects how much I get?

How much you get back depends on:

- The investment return earned on the fund over the period you invest
- The effect of any guarantees
- The way we smooth payouts
- Policy charges
- The business risks the with-profits fund takes
- The tax we have to pay

## How your money is invested

Our with-profits fund pools your payments (less any deductions to cover charges), along with those of all our other with-profits policyholders.

The with-profits fund invests in a wide mix of different types of assets, such as:

- UK and overseas company shares (equities)
- Commercial property
- Government and company bonds (loans to the government or companies)
- Deposits

The investment strategy of the with-profits fund reflects what our Board of Directors believes is an appropriate balance between the risks of different investment and the potential reward they offer. Our investment managers aim to maximise the returns on our assets, whilst working within the overall investment strategy.

Higher risk assets, such as equities and property, offer the potential for higher returns over the long term than lower risk assets such as deposits and bonds. Currently we invest a significant proportion of the with-profits fund in equities and property in order to try and increase returns for our with-profits policyholders.

The actual mix of assets may change over time, depending on the risks our Board is willing to take and the investment managers’ view on potential future returns from different types of asset. (Go to [www.nfumutual.co.uk](http://www.nfumutual.co.uk) for information on the current mix).

The amount of risk our Board is willing to take will be influenced by the size of our estate (the excess of our assets over our liabilities) as this offers a cushion against volatility in asset values.

### 3. What are bonuses?

We aim to increase the value of your investment by adding bonuses to your policy. There are two types of bonus. These are regular bonus and terminal bonus.

#### Regular bonus

Regular bonus can be added in two ways. Depending on what type of policy you have, we may add bonuses by:

- Increasing the price of your with-profits units each day and/or
- Adding additional with-profits units to your policy monthly

The level of regular bonus can go up and down and there is no guarantee that a regular bonus will be added each year.

We announce the level of bonus at least once a year.

Some capital investment bonds and personal pension plans have guaranteed minimum regular bonus rates. These guaranteed rates may be higher than the regular bonus rate paid on similar policies that do not have the guarantee. The NFU Mutual vintage bond has a guarantee that the annual bonus, after deduction of the annual management charge and the annual charge for the guarantee, will not be less than zero.

Once regular bonuses have been added, they are guaranteed to be paid on death and on certain other guarantee dates. Please see section six “What do we guarantee?” for further information.

The level of regular bonus may be different for different products and for similar policies taken out at different times.

#### Terminal Bonus

A terminal bonus may be added to your policy when you leave the with-profits fund, for example when your policy matures, you retire or surrender your policy or switch into another fund.

The level of terminal bonus can go up and down and there is no guarantee that any terminal bonus will be added. We can change terminal bonus levels at any time.

Currently we review terminal bonus levels twice a year or more often if investment conditions change significantly from what we were expecting.

Although we aim to smooth payouts, terminal bonus levels can be volatile and move up and down significantly. This is because we invest a significant proportion of the with-profits fund in higher risk assets (such as equities or property).

We set separate terminal bonus rates for different products. There are also different rates for:

- Investments that started in different years – the start date for calculating terminal bonus is the date you invested or switched into the specific series of with-profits units. This may be different from the commencement date of your policy
- Regular and single investments that start in the same year
- Policies with different charging structures

Where you have made additional investments to your policy, for example an additional single payment or an additional series of regular payments, different rates of terminal bonus may apply to each separate investment.

## How do we set bonuses?

When you make an investment in the with-profits fund we create two types of units for you:

1. With-profits fund units – The value of your with-profits units may grow through the addition of bonuses.
2. Shadow fund units – The value of your shadow fund units represents your share of the with-profits fund (your asset share). The value of your shadow fund units will rise and fall reflecting the performance of our with-profits fund. The value of your shadow fund units depends on:
  - How much you have invested
  - When you made the investment
  - The fund's performance over time, allowing for taxation
  - Charges applied to your policy
  - Various profits and losses (see section eight “Managing risks the with-profits fund is exposed to”).

We use the shadow fund to decide what bonuses should be added to each policy and what level of market value reduction (if any) we will need to apply, if you surrender or transfer your policy (see the section “What is an MVR?”).

Our aim when setting bonus levels is to pay out on average, the shadow fund value of your policy, when you leave the with-profits fund.

To work out the actual bonus level we group similar policies together, and determine a fair return for those policies. Different groups of policies may receive different levels of bonus.

## Regular bonuses

We aim to set regular bonus rates so:

- They are sustainable over the long term considering current and future expected investment returns
- They will not vary too much from year to year
- Normally there will be scope to add a terminal bonus.

## Terminal bonuses

Paying a terminal bonus enables us to pay out your share of profits that have not already been paid out as regular bonus. We aim to pay out, on average, the shadow fund value of your policy under each of the following circumstances:

- Your policy reaches maturity
- You want to switch out of the with-profits fund or
- You want to retire, surrender or transfer your policy.

The things we consider when setting terminal bonus rates include:

- The shadow fund value compared to the with-profits fund value for groups of similar policies. This allows us to see how much of the value we haven't given to you already in regular bonuses
- What we expect investment returns to be for the period we intend the terminal bonus rates to apply
- The change in payouts for similar policies from one year to the next. We aim to restrict the change in the amount we pay out to policyholders in consecutive years to what we believe is a reasonable level.

## 4. What is smoothing?

Investment values can be volatile and consequently the value of the with-profits fund and your shadow fund value can fluctuate quite a lot. This is because we invest a significant proportion of the with-profits fund in higher risk assets (such as equities and property).

Instead of simply sharing out what the fund makes or loses each year, we even out some of the fluctuations. This is known as smoothing. In practice we may keep some of the growth back when investment conditions have been good, so that we can add it back when investment conditions are poor.

Although smoothing helps to even out some of the fluctuations in investment values, it can not fully protect the value of your policy from poor investment returns or long term market falls. When the value of your shadow fund falls, the value of your payout may also fall. On certain guarantee dates the amount we pay out can not fall below the minimum guaranteed amount, this is described more in section six "What do we guarantee?"

We aim to pay out on average, the shadow fund value of your policy. However, as described above, the actual amount we pay out will be subject to smoothing. Your payout will be between 80% and 120% of your shadow fund value, unless a guarantee applies in which case your payout may be above 120% of your shadow fund value.

## 5. Surrendering your policy

We work out the surrender value of your policy by multiplying the number of with-profits units allocated to your policy by the current unit price and then deducting any surrender penalties. In addition, we may add a terminal bonus to this value.

However if your shadow fund value is less than the value of your with-profits units when you choose to surrender, we may apply a reduction. This is known as a market value reduction (MVR).

If you switch your investments out of the with-profits fund into one of our investment linked funds then, whilst you will not be subject to a surrender penalty, you may be subject to an MVR.

### What is a Market Value Reduction (MVR)?

When you make a switch out of the with-profits fund or withdraw money from your policy the value of your with-profits units can be reduced in certain circumstances by applying a MVR. This is most likely to happen following a large or prolonged fall in the stock market, or after a sustained period of low investment returns. The MVR ensures that investors who remain invested during poor market conditions are not disadvantaged by those who take money out of the fund.

### When do we apply a Market Value Reduction (MVR) and how is it calculated?

An MVR is applied when the value of your shadow fund units falls below a certain percentage of the value of your with-profits units. The level is currently 90%. All of the individual payments (a single payment or group of regular payments) you make are treated separately for this calculation.

If you cash in or switch your investment from the with-profits fund when the MVR applies then:

- If the shadow fund unit value is less than 85% of your with-profits fund value then you will receive the value of your shadow fund units.
- If the shadow fund unit value is between 85% and 90% of your with-profits fund value then you will receive a value between the shadow fund value and with-profit fund value.

Please note:

- The 'trigger points' of 85% and 90% can be changed.
- An MVR is dependant on individual values for each policy. Whether an MVR applies and the size of the MVR therefore changes on a daily basis for any policy.
- When the MVR is applying in full, your surrender value will be the value of your shadow fund units, therefore there will be no smoothing on your value at that time and the value may be volatile.

If an MVR applies to your policy when you wish to surrender or switch, it is worth considering what guarantees your policy has because they may be valuable. For example your policy may include dates where we guarantee not to apply an MVR. We strongly recommend you should take advice before acting.

## 6. What do we guarantee?

Our unitised with-profits policies contain guarantees. Any guarantees that your plan has are detailed in your policy documentation.

### When do we guarantee not to apply a Market Value Reduction (MVR)?

If you have a guarantee that no MVR will apply on your policy on a certain date, the minimum amount you will receive is the value of your with-profits fund units including all regular bonuses that have been added to your policy, even if the underlying value of your shadow fund units is lower than this. You may not receive the full value of your with-profits fund units at other times.

We guarantee not to apply a market value reduction:

- If you die
- On your selected retirement date if you have a personal pension policy and certain later dates if you change your standard retirement date
- If you surrender (or switch funds on) your capital investment bond on its 10th anniversary
- On regular withdrawals taken from a capital investment bond or flexibond up to certain annual limits
- On the 5th anniversary of a NFU Mutual vintage bond commencing and any subsequent 5th anniversary whilst you are still paying the extra charge for the guarantee.

If you have a personal pension plan and you retire, switch or transfer out within three years of the selected retirement date, the amount of any MVR applied will be reduced so that the MVR is smoothed in over the 3 years prior to the selected retirement date. The proportion of the standard MVR that is applied reduces as you get nearer your selected retirement date.

For a capital investment bond we guarantee not to apply an MVR on the 10th anniversary of the date on which your bond started. This means that if you cash in your bond on the 10th anniversary date you will receive the full value of your with-profits fund units. After this date, the MVR may apply in certain circumstances. However, if you do not cash in your bond on the 10th anniversary and the shadow fund unit value is less than the with-profits fund value on that day, we will enhance the value of your shadow fund units so that they are equal to the value of your with-profits fund units on that day.

For the NFU Mutual vintage bond we guarantee not to apply an MVR on the 5th anniversary of the date on which your bond started and any subsequent 5th anniversary whilst you are still paying the extra charge for the guarantee. This means that if you cash in your bond on one of these guarantee dates, you will receive at least the full value of the with-profits units. If you decide not to cash in your bond on the guarantee date, we will switch the whole cash in value of your bond including any terminal bonus that applies, to the series of with-profits units that are available at that time. Your terminal bonus will be calculated using the entry date or switch date into the series of with-profits units you hold.

### Guaranteed minimum regular bonus rates

Some capital investment bonds and personal pension plans have guaranteed minimum regular bonus rates. These guaranteed rates may be higher than the regular bonus rate paid on similar policies that do not have the guarantee.

## 7. Charges and expenses

The charges that apply to your policy are used to calculate the shadow fund unit prices and are considered when setting bonus rates. Therefore the charges impact on the amount we pay out.

More detail about the actual level of charge that applies to each type of policy is included in the PPFM Appendix, which is available on our website [www.nfumutual.co.uk](http://www.nfumutual.co.uk) or on request.

## 8. Managing risks the with-profits fund is exposed to

The performance of the with-profits fund is affected by risks that may increase or reduce the value of the with-profits fund. These risks may change over time.

Currently the major risks facing the with-profits fund as a whole are:

- Potential losses on investments
- The cost of guarantees made on some with-profits policies being greater than expected
- Losses on our non-profit business (such as claims being more than expected)
- Expenses being higher than planned

Our Board of Directors is responsible for actively managing any risks to the with-profits fund. They approve all significant risks after considering factors including:

- Whether the risk is worth taking
- The size of our estate (see the next section)
- The size of the potential impact on our assets and our ability to pay policyholders
- Our exposure to other risks.

The estate will normally absorb any profits or losses that arise from the risks the with-profits fund runs. However as a mutual organisation, with no shareholders, any losses (or profits) may ultimately be borne by (or credited to) the with-profits policyholders.

## 9. The estate and how we use it to manage your investment

The estate is the term we use to describe the excess of our assets over liabilities. Or in other words, what we own over what we owe. It provides us with the money (working capital) to operate our business. We carefully manage the estate so that it is big enough to:

- Provide enough money, so that we can continue to issue new business
- Cover the costs of smoothing
- Meet the costs of certain policy guarantees
- Meet any excess of expenses over charges to with-profits policies
- Provide investment freedom so we can invest in riskier assets which have potential for higher investment returns (for example equities and property)
- Cover one off exceptional expenses.

## 10. Volumes of new business

The financial soundness of the with-profits fund can be adversely affected if the company issues too many new policies. Our estate is large enough such that currently we do not set any limits on the amount of with-profits business that we sell in any year. We regularly monitor the levels of new business. We currently have an upper limit in place, which means we would stop selling our NFU Mutual vintage and NFU Mutual classic bonds if the combined value of in force business for both bonds exceeded a certain amount. We regularly review this limit.

## To find out more

If you'd like to know more about investing in the with-profits fund, you can:

- Contact your NFU Mutual financial consultant
- Call our customer service team on 0800 622 323
- Refer to the full principles and practices of financial management (PPFM) at [www.nfumutual.co.uk](http://www.nfumutual.co.uk). The PPFM overrides the contents of this guide if there are any differences between the two documents.

NFU Mutual financial consultants advise on NFU Mutual products and services, and in special circumstances those of other providers.

The value of investments may fall as well as rise. You may receive back less than your original investment.

# Jargon Buster

## **Blue-chip**

A well established company usually large and highly regarded.

## **Bond**

The generic name for a tradeable loan security issued by governments and companies as a means of raising money. The holder of the bond normally receives repayment of their capital at a future specified date (the maturity date) and a fixed rate of interest for the life of the bond.

## **Cash**

Typically means deposits placed with banks or building societies.

## **Corporate bonds**

Bonds issued by private and public corporations to raise money. An investor in a corporate bond is effectively lending money to the company. In return the investor receives interest at a fixed rate and the promise that their capital will be repaid at a certain date in the future. However, these investments aren't backed by the government, so they aren't considered to be as safe as gilts (see explanation of gilts later).

## **Corporate issuers**

Private and public corporations that issue bonds.

## **Diversified**

By diversifying your funds you aim to minimise your risk by spreading your money among many types of investments. Diversification and risk are directly related to each other because the more you diversify your portfolio (see definition below), the less risk you have.

## **Efficient portfolio management**

A strategy of reducing risk or increasing returns, for example by using Financial Derivatives or Hedging (see explanations of Financial Derivatives and Hedging later).

## **Equities**

Another name for shares in a company.

## **FTSE**

The initials FTSE ("footsie") stands for the Financial Times Stock Exchange. It is an independent company, originally jointly created by the Financial Times and the London Stock Exchange which amongst other things creates and manages indices that cover companies quoted on the London Stock Exchange. For example the FTSE All Share index monitors all shares on the London Stock Exchange.

## **Financial derivative**

A financial contract whose value is based on (derived from) a traditional security, an asset or a market index.

## **Fixed interest rate securities / fixed income stocks / fixed and floating rate securities**

Fixed interest rate securities (also referred to as fixed rate securities or fixed income stocks) are bonds and other debt instruments on which the holder receives a fixed rate of interest. Floating rate securities have a variable rate of interest.

## **Gilts**

A fixed interest or index-linked bond issued by the UK government. When an investor buys a gilt they are lending the government money in return for regular interest payments and the promise that the nominal value of the gilt will be repaid (redemption payment) on a specified date (redemption date). Gilts don't have to be held until the redemption date, they can be traded just like shares. Their prices move in line with supply and demand, the main influence on prices is the market's view of future interest rates and inflation. Gilt values fall when interest rates rise. The interest payments are fixed, so are worth less if inflation is increasing.

## **Hedging**

A transaction that reduces the risk of an investment.

## **Index-linked bonds / Index-linked securities**

A type of bond that pays a lower rate of interest than a fixed interest bond, but the rate of interest and the amount paid on redemption will rise in line with inflation.

## **Indirect Investment**

Indirect investment is a means of investing in an asset, for example shares or property, without getting involved in the buying and selling of the assets on your own account. Your money is pooled with that from a number of investors and is invested in assets i.e. a portfolio of stocks and shares. These will be selected and managed on your behalf (and the other investors) by fund managers.

## **Investment grade**

Bonds are rated on the probability of the bond issuer not paying back the value of the bond or interest due. This rating is based on an analysis of the issuer's financial condition and profit potential. There are specialist agencies that provide bond rating services, such as Moody's, Standard & Poor's and Fitch. A bond is considered to be 'investment grade' if it's rated BBB or above. This means the ratings agencies believe that the issuer is unlikely to default on payment, as it has a strong credit profile. The highest rating is AAA.

## **Liquid/Liquidity**

Liquidity is a measure of how easy it is to buy and sell an asset or company's shares. For example it is easier to sell the shares of a large UK company quoted on the London Stock Exchange than those of a small private unquoted company.

### **OEIC**

OEIC stands for Open Ended Investment Company. They are similar to a unit trust (see explanation of unit trust later) in that they issue more shares as the fund grows and they invest the money in other companies. However only one price is quoted rather than having different buying and selling prices. The big difference is they issue shares, which is more like an investment trust.

### **Portfolio**

A collection of different investments which between them are designed to achieve an overall aim. The individual components may have different roles to play.

### **Preference shares**

Preference shares offer their owners preferences over ordinary shareholders. There are 2 major differences between ordinary and preference shares (1) preference shareholders are often entitled to a fixed dividend even when ordinary shareholders aren't and (2) preference shareholders can't normally vote at general meetings.

### **Redemption payment**

Gilt or Corporate Bond repayment amount, see previous explanation of Gilts and Corporate Bonds.

### **Securities**

Another name for stocks and shares.

### **Stocks**

Units of ownership in a company, which are represented by shares. Also used to describe Bonds or Corporate Bonds.

### **Supra national**

A body formed by two or more central governments through international treaties, to promote economic development for member countries. The International Bank for Reconstruction and Development (World Bank) is an example of a supra national.

### **UK money market accounts**

Typically means deposits placed with UK banks or building societies.

### **UK quoted company**

A company whose shares are listed on the London Stock Exchange.

### **Unit Trust**

Unit trusts are collective funds that allow individual investors to pool their money in a single fund. The benefits are that the investors can spread their risk across a range of shares, obtain dedicated fund management plus reduced dealing costs. Unit trusts have a wide variety of investment objectives, for example some will aim for income, others capital growth whilst others may target small companies or others solely the FTSE 100 companies shares.





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