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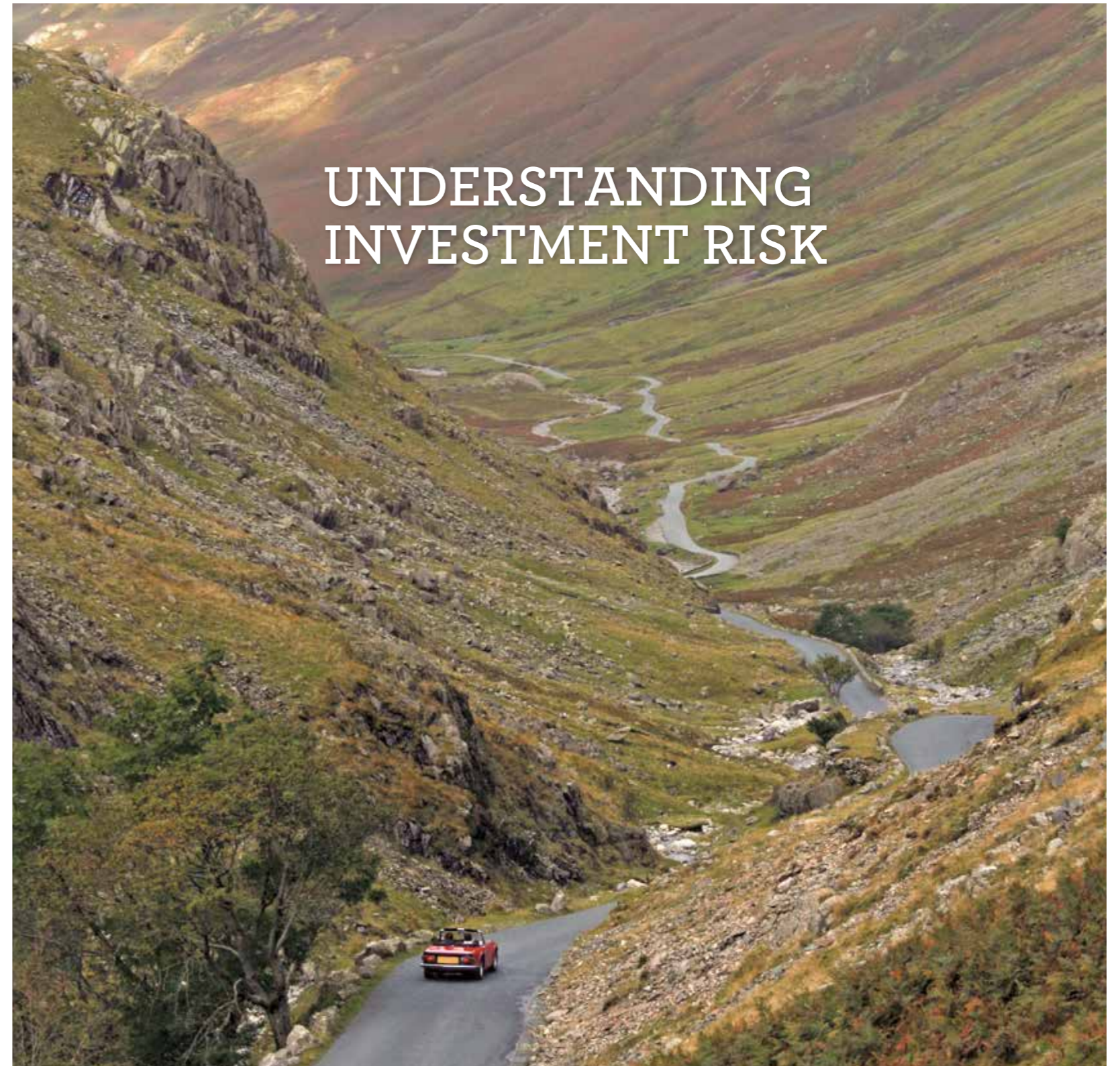
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UNDERSTANDING INVESTMENT RISK



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It's about time®

UNDERSTANDING INVESTMENT RISK

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Understanding risk is an important part of any investment decisions you make. The aim of this short guide is to provide a high-level introduction to the key issues you need to consider.

INVESTMENT RISK

It's a fact that the potential for higher returns is usually accompanied by a higher level of risk.

Although there are no totally 'risk-free' investments available, some are safer than others. These range from lower risk cash deposits to higher risk Emerging Market Equity Funds and individual stocks and shares. It's important to remember that any investment involves some form of risk.

Here are some of the different types of risk:

Capital Risk

- The risk that you may not get back as much as you put in.
- Investments generally go up and down in value, some types more than others.
- For example, share prices generally change daily.

Not meeting your investment goal(s)

- Your investment may not give you the amount you'd like or need in the future.
- You need to make sure you keep an eye on how your investments are doing.
- If it's not on target you may need to invest more to achieve your goals.

Insufficient Income

- Your investment may not give you the amount of income you'd like or need.
- This may be now or in the future.
- For example, this may be important if you need a particular amount of income from your pension fund.

Loss of real value

- Your investment may not keep pace with inflation.
- This may reduce what you can buy.

Accessibility

- You may not be able to get your money as quickly as you need it.
- It isn't always possible to cash in investments instantly.
- For example, property may take a long time to sell.

Specific Risks

- Any funds invested overseas or in different currencies will have a specific risk because of exchange rates.
- For example, a US equity fund takes investors' pounds to America and changes them to US dollars to buy and sell company shares in US companies. It then changes the US dollars back into pounds when you get out of the fund. There's a currency risk depending on how many dollars you get to the pound.
- A change in the interest rate could have a negative impact on your investment. Each type of investment is affected by rises and falls in interest rates in different ways.

THINGS TO CONSIDER ABOUT RISK

Attitudes towards investment risk tend to be subjective and are likely to be influenced by current events or recent experiences. For example, when stock markets are rising we tend to feel comfortable with market risk, when they are falling we don't.

Most people are not comfortable with the idea of losing money. On the other hand we may look back with regret if we have been over cautious and our long-term investments don't produce the returns we need.

Before deciding where to invest it's important to ask yourself why are you investing as this will influence what level of risk you are comfortable with.

WHY AM I INVESTING?



UNDERSTANDING RISK DEFINITION

To help our customers understand and identify with a level of investment risk that suits them, we have created a set of risk definitions.

SIX LEVELS OF RISK

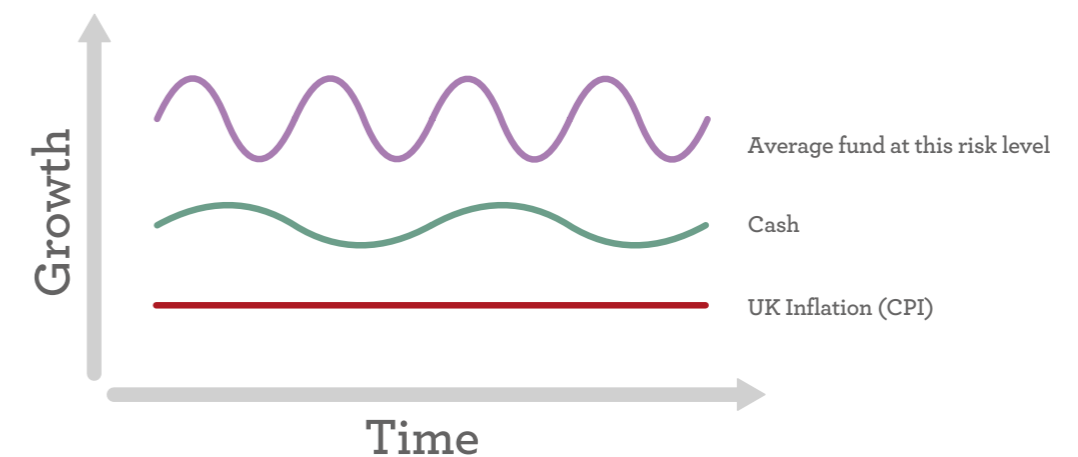
The following pages set out six levels of risk and the associated descriptions of each. The lowest is level one and it increases up to level six.

Each risk level definition includes a chart over a ten year period which measures three different elements:

- An average investment at the appropriate level of risk.
- To represent cash returns we use the interbank lending rate.
- Both of these are presented relative to UK inflation which is shown as a red flat line.

Our cash measure, the interbank lending rate, is a rate at which banks lend to each other. This rate generally tends to be higher than a customer is able to obtain from a savings account.

To give an indication of the level of consistency achieved by each element, a table has been included which shows the return achieved each year over the preceding ten years.



RISK LEVEL ONE

Is this you?

You are not willing to make investments where you could risk losing money.

What does this mean for potential investment growth?

You accept the potential for growth is low and also that the growth may not keep pace with inflation. Keeping your initial monetary value, rather than exposing it to the risks of financial markets, is likely to be your priority.

What type of investment would you make?

Share investment is not suitable for you because values can fall and you could lose money.

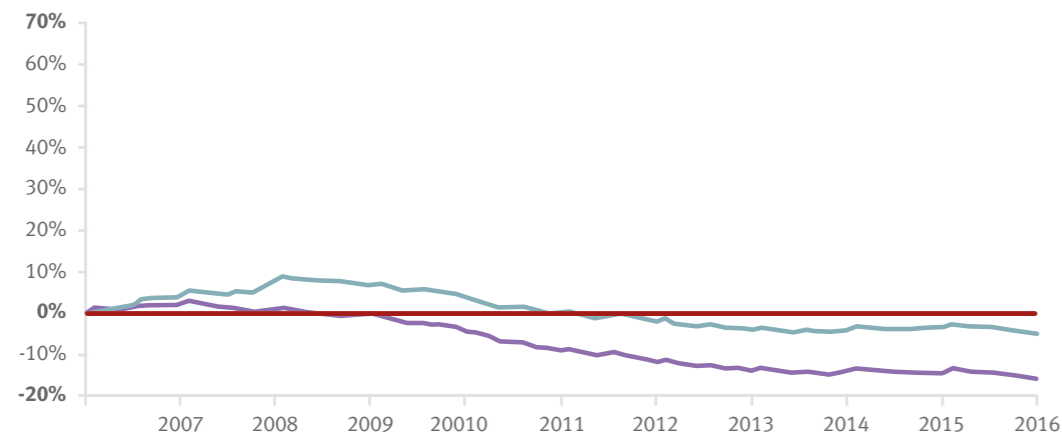
What level of investment knowledge do you need?

An investor in this risk level is typically someone who does not need knowledge of investments.

How long do you intend to invest for?

You might need to access any investment within five years, possibly at short notice.

This chart shows the relative performance of cash and a typical risk level one investment fund versus inflation



The chart* illustrates what we would regard as a typical level one investment. Note that the average fund in this level has not gone up and down too often, but over the long-term struggled to keep pace with inflation.

Returns over the past 10 years

This table* shows the percentage returns achieved over each of the past 10 calendar years and gives an idea of the level of change in return over each period.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
An average fund for this level of risk	4.0	2.3	1.0	0.3	0.0	0.5	0.2	0.3	0.2	0.3
UK Inflation (CPI)	2.1	3.1	2.9	3.7	4.2	2.7	2.0	0.5	0.2	1.6
Interbank lending rate 3 Month GBP	6.0	6.5	1.8	0.7	0.8	1.0	0.5	0.5	0.6	0.6

* Source: Morningstar Direct; total return after charges, income reinvested. (Percentage increase for calendar years 1 January to 31 December.)

The value of investments and any income from them may go down as well as up. You may get back less than you invest. Please remember that past performance is not a reliable indicator of future results.

RISK LEVEL TWO

Is this you?

You are prepared to take some risk when investing but will choose investments where the amount of any losses would be small.

What does this mean for potential investment growth?

You want to have the potential to outperform bank and building society accounts over the longer term generally meaning more than 5 years. You would prefer to have the potential for slower investment growth with limited exposure to equities.

What type of investment would you make?

You are comfortable putting around a third of your investment into shares of large, established companies and the rest in lower risk investments such as cash and bonds.

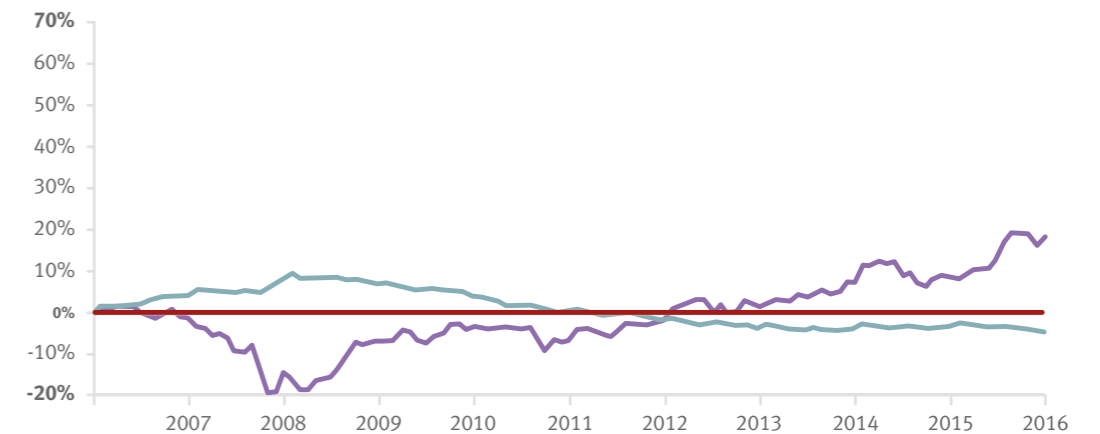
What level of investment knowledge do you need?

An investor in this risk level is typically someone who has some knowledge of the most popular types of investments.

How long do you intend to invest for?

You can invest for the longer term, say five years or more, and do not expect you will have to sell your investments earlier.

This chart shows the relative performance of cash and a typical risk level two investment fund versus inflation



The chart* illustrates what we would regard as a typical level two investment. Note that the average fund in this level has experienced ups and downs in value, but the falls are not as large as higher risk levels. It currently provides returns which are above inflation.

Returns over the past 10 years

This table* shows the percentage returns achieved over each of the past 10 calendar years and gives an idea of the level of change in return over each period.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
An average fund for this level of risk	0.5	-10.1	11.8	7.8	1.4	7.0	4.8	5.3	0.9	9.0
UK Inflation (CPI)	2.1	3.1	2.9	3.7	4.2	2.7	2.0	0.5	0.2	1.6
Interbank lending rate 3 Month GBP	6.0	6.5	1.8	0.7	0.8	1.0	0.5	0.5	0.6	0.6

* Source: Morningstar Direct; total return after charges, income reinvested. (Percentage increase for calendar years 1 January to 31 December.)

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RISK LEVEL THREE

Is this you?

You are prepared to put money at risk and accept that values can fall, but will try to avoid any investments that could lead to a large loss.

What does this mean for potential investment growth?

You want to have the potential for growth significantly higher than that typically on offer with deposit accounts, but accept that high returns are unlikely. You accept that other investments may provide the potential for better returns by taking a greater risk.

How long do you intend to invest for?

You can invest for the longer term, say five years or more, and do not expect you will have to sell your investments earlier.

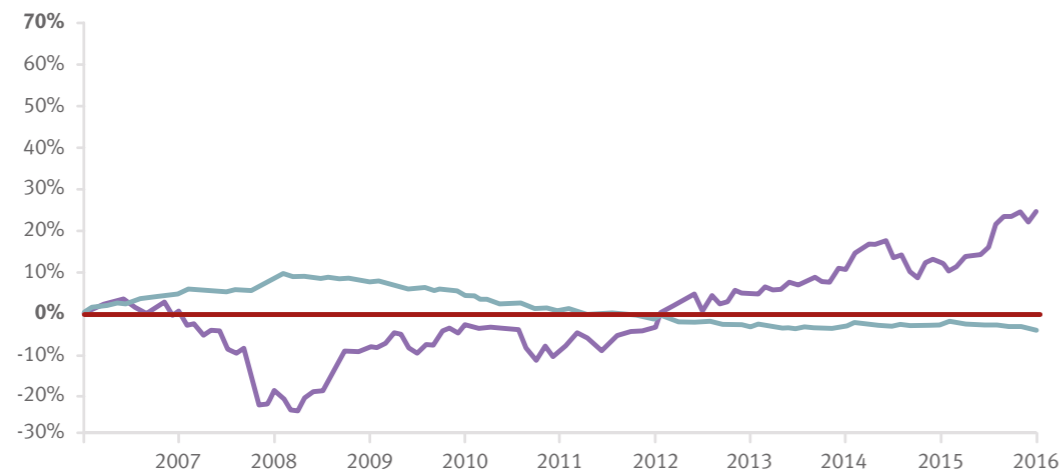
What type of investment would you make?

You are comfortable putting around two thirds of your investments into shares of companies in well-established markets, and the rest in lower risk investments such as bonds and cash.

What level of investment knowledge do you need?

An investor in this risk level is typically someone who has a good level of knowledge of the most popular types of investments.

This chart shows the relative performance of cash and a typical risk level three investment fund versus inflation



The chart* illustrates what we would regard as a typical level three investment. Note that the average fund in this level has gone up and down in value more often and to a higher degree than lower levels but not as much as higher risk levels. It currently provides returns which are above inflation.

Returns over the past 10 years

This table* shows the percentage returns achieved over each of the past 10 calendar years and gives an idea of the level of change in return over each period.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
An average fund for this level of risk	1.4	-15.7	16.3	9.1	-1.6	8.7	9.2	5.0	1.5	10.6
UK Inflation (CPI)	2.1	3.1	2.9	3.7	4.2	2.7	2.0	0.5	0.2	1.6
Interbank lending rate 3 Month GBP	6.0	6.5	1.8	0.7	0.8	1.0	0.5	0.5	0.6	0.6

* Source: Morningstar Direct; total return after charges, income reinvested. (Percentage increase for calendar years 1 January to 31 December.)

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RISK LEVEL FOUR

Is this you?

You are prepared to put money at risk and accept that values can fall, but will try to limit the risk of significant losses.

What does this mean for potential investment growth?

You wish to have the potential to significantly outperform bank or building society accounts. Investments like this will rise and fall in value more than investments associated with lower risk levels.

How long do you intend to invest for?

You can invest for the longer term, say five years or more, and do not foresee needing to sell your investments earlier.

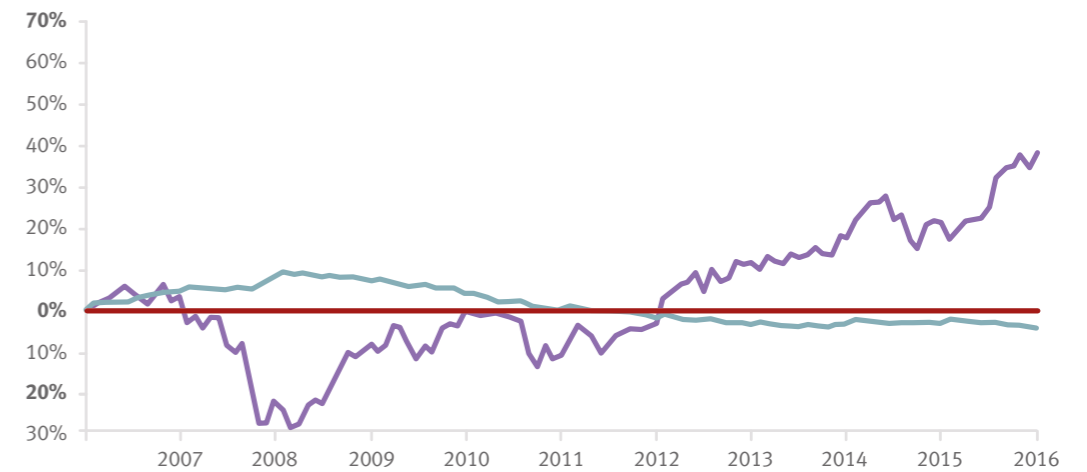
What type of investment would you make?

You are comfortable putting around three quarters of your investments into shares of companies in well-established markets, and the rest in lower risk investments such as bonds.

What level of investment knowledge do you need?

An investor in this risk level is typically someone who has a good level of knowledge of stock market investments.

This chart shows the relative performance of cash and a typical risk level four investment fund versus inflation



The chart* illustrates what we would regard as a typical level four investment. Note that the average fund in this level has gone up and down in value more sharply and more often than lower levels but not as much as higher risk levels. Over this period, most of the time it has provided returns above inflation.

Returns over the past 10 years

This table* shows the percentage returns achieved over each of the past 10 calendar years and gives an idea of the level of change in return over each period.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
An average fund for this level of risk	4.8	-21.3	20.4	12.5	-5.4	10.2	14.8	5.0	2.8	13.3
UK Inflation (CPI)	2.1	3.1	2.9	3.7	4.2	2.7	2.0	0.5	0.2	1.6
Interbank lending rate 3 Month GBP	6.0	6.5	1.8	0.7	0.8	1.0	0.5	0.5	0.6	0.6

* Source: Morningstar Direct; total return after charges, income reinvested. (Percentage increase for calendar years 1 January to 31 December.)

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RISK LEVEL FIVE

Is this you?

You are prepared to risk putting money into investments that can fall sharply in value and lose money.

What does this mean for potential investment growth?

You are looking for significant returns on your investment and are willing to accept a higher level of risk than our lower risk levels. You accept the possibility of large changes in the value of investments. You accept you could lose some of your money and understand the consequences this may have on your objectives.

How long do you intend to invest for?

You can invest for the longer term, say five years or more, and do not foresee needing to sell your investments earlier.

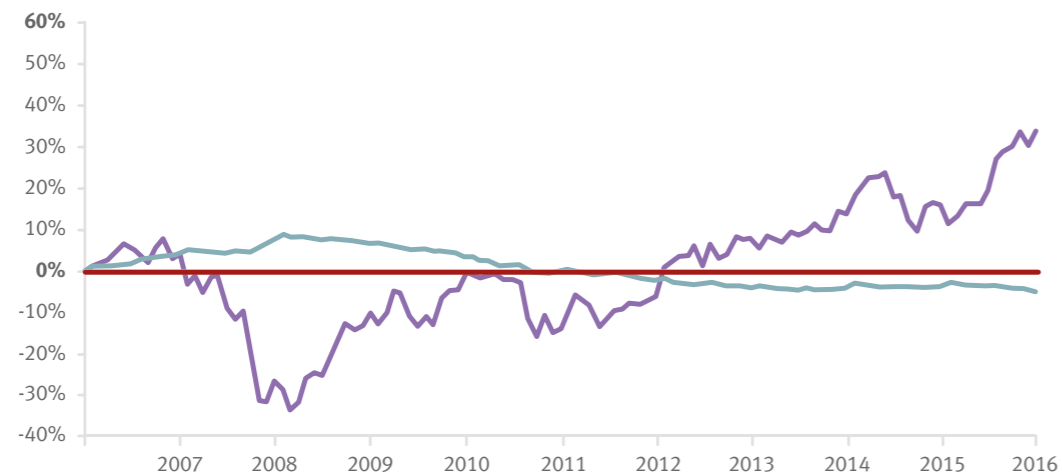
What type of investment would you make?

You are comfortable investing wholly into the shares of a wide range of companies, including some in emerging markets, but may want to hold some lower risk investments such as bonds.

What level of investment knowledge do you need?

An investor in this risk level is typically someone who has very good knowledge or experience of stock market investments.

This chart shows the relative performance of cash and a typical risk level five investment fund versus inflation



The chart* illustrates what we would regard as a typical level five investment. Note that the average fund in this level has gone up and down in value more sharply and more often than lower levels and there have been periods of large falls in value. Over this period, most of the time it has provided returns above inflation.

Returns over the past 10 years

This table* shows the percentage returns achieved over each of the past 10 calendar years and gives an idea of the level of change in return over each period.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
An average fund for this level of risk	6.1	-26.0	24.8	14.9	-8.5	10.3	14.8	4.8	2.1	14.2
UK Inflation (CPI)	2.1	3.1	2.9	3.7	4.2	2.7	2.0	0.5	0.2	1.6
Interbank lending rate 3 Month GBP	6.0	6.5	1.8	0.7	0.8	1.0	0.5	0.5	0.6	0.6

* Source: Morningstar Direct; total return after charges, income reinvested. (Percentage increase for calendar years 1 January to 31 December.)

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RISK LEVEL SIX

Is this you?

You are prepared to risk putting a significant proportion of your money into investments that can fall sharply in value and lose money.

What does this mean for potential investment growth?

You are looking for maximum returns on your investment and are willing to accept a high level of risk, with the possibility of extreme changes in the value of your investment. You accept that you could lose some or all of your money and understand the consequences this may have on your objectives.

How long do you intend to invest for?

You can invest for the longer term, say five years or more, and do not foresee needing to sell your investments earlier.

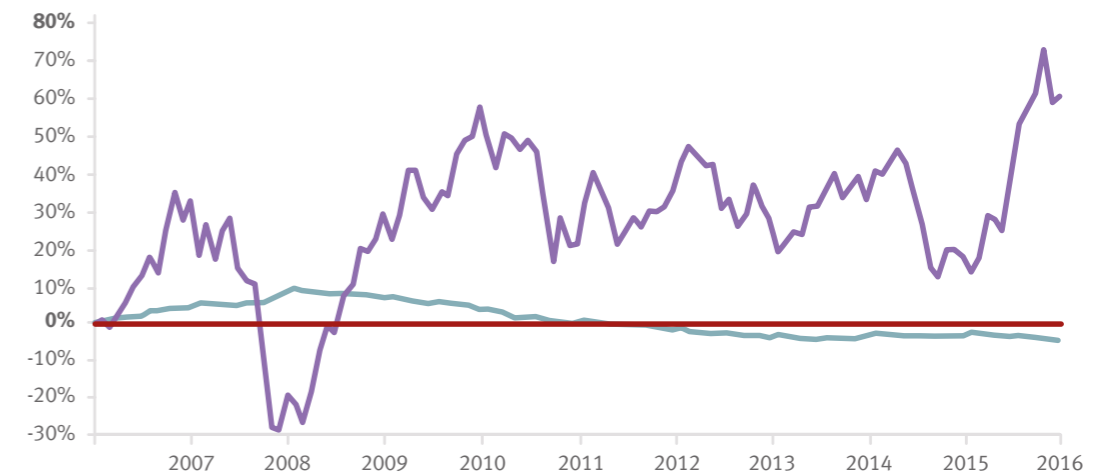
What type of investment would you make?

You are comfortable investing wholly into shares of a wide range of companies, including small or new companies and those in emerging markets.

What level of investment knowledge do you need?

An investor in this risk level is typically someone who has a high level of knowledge or experience of stock market investments.

This chart shows the relative performance of cash and a typical risk level six investment fund versus inflation



The chart* illustrates what we would regard as a typical level six investment. Note that the percentage returns have been much greater for this risk level. The average fund in this level has gone up and down more often. There were periods of large falls in value, but also sharp increases in value. Over this period, the returns achieved have been generally greater than inflation.

Returns over the past 10 years

This table* shows the percentage returns achieved over each of the past 10 calendar years and gives an idea of the level of change in return over each period.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
An average fund for this level of risk	34.6	-36.3	60.3	23.7	-19.1	13.6	-3.8	3.4	-9.2	31.6
UK Inflation (CPI)	2.1	3.1	2.9	3.7	4.2	2.7	2.0	0.5	0.2	1.6
Interbank lending rate 3 Month GBP	6.0	6.5	1.8	0.7	0.8	1.0	0.5	0.5	0.6	0.6

* Source: Morningstar Direct; total return after charges, income reinvested. (Percentage increase for calendar years 1 January to 31 December.)

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