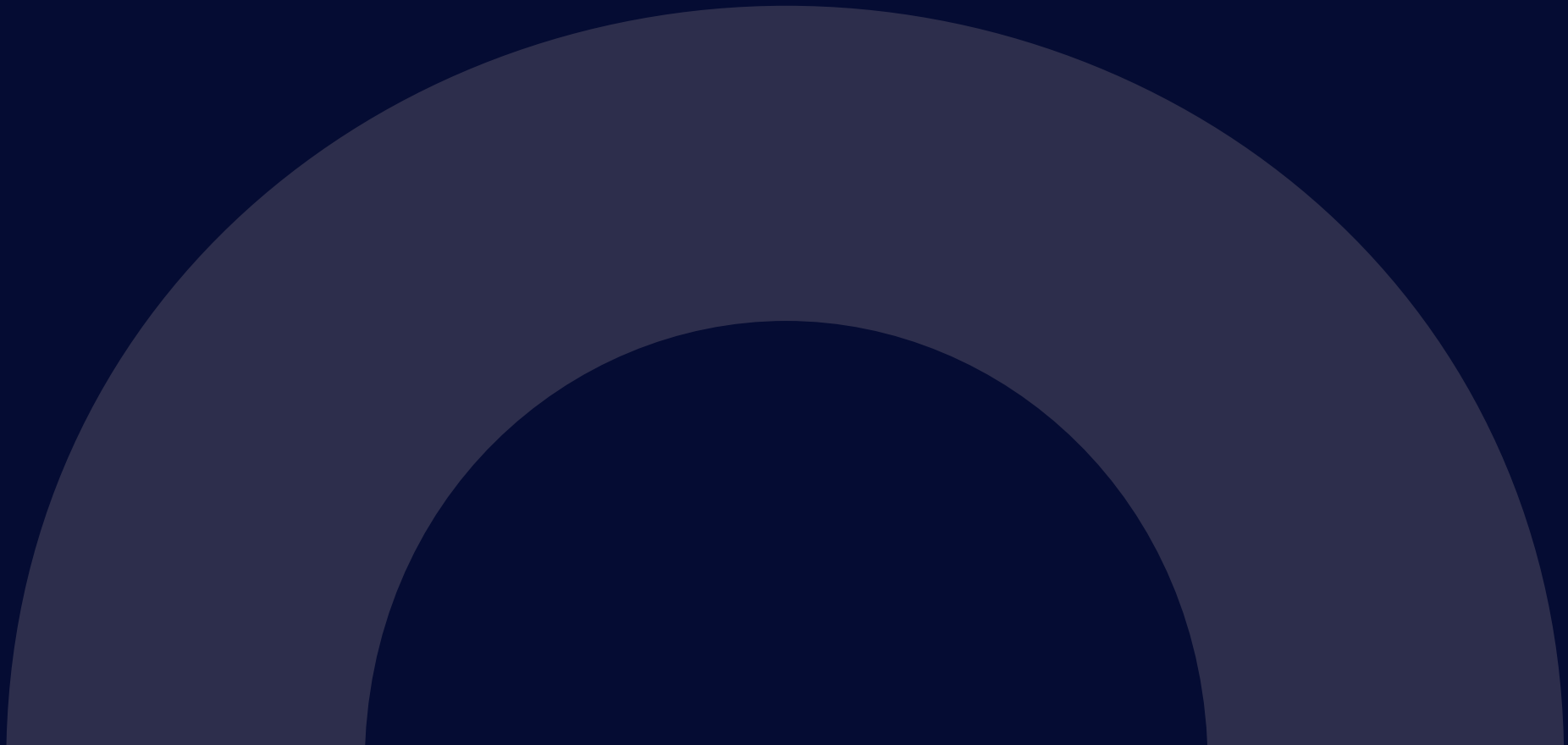
BROOKE FINANCIAL

Investment Principles



Introduction to investing

The world of investing can seem a bit daunting, particularly if you're new to it.

This pack is designed to demystify some of the basics surrounding investing and give you some insight into how it works. We'll talk you through your options and our four investment principles to help you make more of your money without taking any more risk than you're comfortable with.

Contents

The pack is split into four sections:

1 Setting investment goals

2 Types of investment
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- Equities
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- Collective investments

3 Investment principles
- Attitude to risk
- Diversification
- Time in the market
- People, process and governance

1. Setting investment goals

Setting investment goals

When creating a portfolio it is crucial to understand the amount of risk you are willing to take, and your investment objectives over the short, medium and long term, as this will determine the best type of asset mix, and ultimately the potential investment rewards they can expect to generate.

Time horizon is also important – if you are saving for retirement for example, the closer you get to your goal the less risk you are likely to want to be exposed to! You don't want your lump-sum fluctuating wildly just before retirement.

These pie charts show how the composition of a typical portfolio could change over the lifespan of an investor. But what do these pie charts mean, and how do we decide on the ingredients?

Over the following pages we will look at the important things to consider when deciding on a portfolio that's right for you.

25 years to maturity

- Bonds 5%
- UK Equities 45%
- International Equities 50%

10 years to maturity

- Bonds 45%
- UK Equities 35%
- International Equities 20%

5 years to maturity

- Bonds 65%
- Cash 12%
- UK Equities 15%
- International Equities 5%

2. Types of investment

Types of investment

Cash

Cash | Bonds | Equities | Alternatives

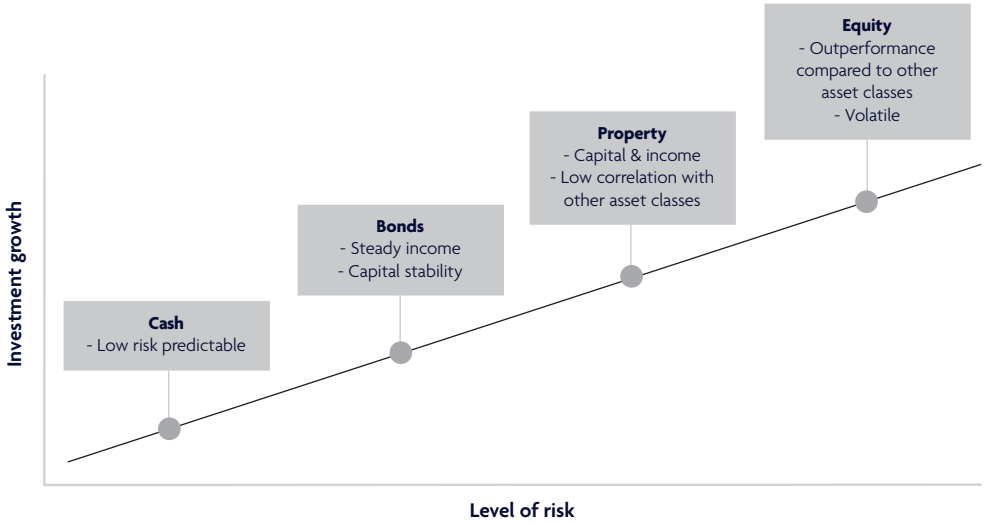
What are your choices when looking to beat inflation and achieve your long-term objectives? Here we look at the main options available and highlight the potential benefits and pitfalls of each.

You can invest in almost anything, including the likes of fine wines and antiques. More traditionally however, there are four core areas of investment, or 'asset classes' as they are known.

Cash

Cash is the asset class with the least associated risk and is useful as part of a diversified portfolio as it offers security and easy access. There are many places you can hold cash, with banks and building societies offering cash savings accounts.

Whilst cash offers the benefit of easy access, it tends to provide lower long-term returns than other asset classes and its value can be eroded by inflation.

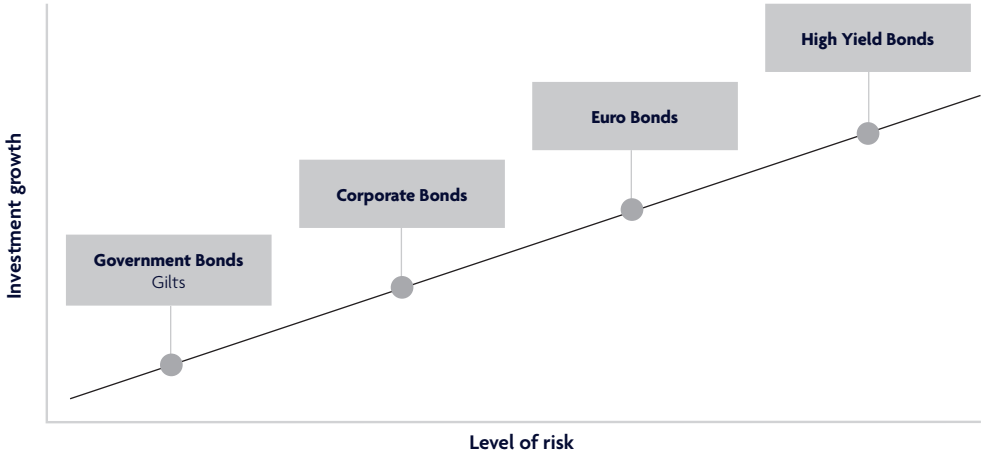


Types of investment

Bonds

Cash | **Bonds** | Equities | Alternatives

Bonds are issued by companies or governments looking to raise cash. By investing in a bond you are in effect lending the issuer your money in return for a regular income and your capital back at a set date in the future. The characteristics of bonds mean they are a key portfolio component for more cautious minded investors.



Bonds tend to fluctuate in value less than shares and should repay your original investment at the end of a fixed term. However, the scope for your money to grow is usually limited in comparison to the growth achieved historically by shares, and there is the possibility that the issuer could default on the loan. Fluctuations in interest rates can also affect the value of a bond – generally when interest rates rise, bond prices fall and vice versa.

Although bonds are usually considered medium risk, this depends hugely on who is issuing them. Bonds issued by the UK Government are called Gilts and are very safe, whilst the risk involved in corporate bonds is dependent on the business issuing them. The level of income a bond pays reflects the risk you are taking – a company with a higher risk of default will have to reward investors with a higher yield.

Types of investment

Equities (or shares)

Cash | Bonds | **Equities** | Alternatives

Equities are probably the best known of the asset classes and are quite simply an ownership stake in an individual company listed on a stock market index, such as the FTSE 100 in the UK, the S&P 500 in the US or the Nikkei 225 in Japan.

People invest in shares in anticipation of an increase in their value, and/or the receipt of a regular income through dividend payments. Whilst history should not be considered a guide to the future, it does show that over the longer term equities tend to outperform other types of investment.

Of course, shares can be volatile, and their value can go up as well as down and you may not get back the full amount invested and the fortunes between different shares can vary dramatically.

Alternative investments

e.g. property

The scope of today's investment world is greater than ever before, and whatever the angle, there is usually a collective investment fund providing access to it (we'll look at collective investments on page 11). Private equity, hedge funds and property are just some of the 'alternative' asset classes which are now easier for private investors to access.

The family home is the most significant investment many of us will ever make, and one that given time is likely to net a tidy profit. Returns from property investments tend not to be closely correlated with those of shares or bonds. This makes it useful from a diversification perspective introducing another source of capital growth potential and income into your investment portfolio.

Although property tends to be less volatile than equities and bonds, its value can fall as well as rise. It is also less liquid than other assets, meaning that it takes longer to invest into, and also to access your money when you need it.

Of course, focusing purely on residential property ignores other opportunities including those offered by commercial property. Property investment funds have proven popular as they provide access to commercial property to those unable to own for example an office block or a shopping centre.

Infrastructure funds invest in large, high cost projects, often connected to government and other public bodies development of core systems of transportation, communications, electrical supply etc.

Natural resources investment is investing in the companies (either directly or through funds) that are involved in the extraction of oil, gas, coal, metals and other natural resources.

Collective investments

Investing in individual companies carries more risk and requires more knowledge to make the right choices, to monitor your investments and make changes as necessary. For these reasons, adopting a collective approach can be extremely beneficial when entering the world of investing.

Mutual, pooled or collective funds are offered by investment management companies and provide easy access to a range of asset classes.

When you invest in a collective, your money is added to that of many other investors which professional fund managers then invest in a range of different assets e.g. equities, bonds, property etc.

Because your money is pooled with other investors, it means that even if you only have a small amount to invest, you can access a range of investments that otherwise you might not be able to.

3. Investment principles

Investment principles

In the previous section we focused on ways of accessing different asset classes. Now we look at some of the key things we strongly believe create a platform for successful long-term investing. We call these our investment principles.

Your attitude to risk will determine the blend of assets we recommend that you invest in

We build investment solutions that ensure you are never exposed to more risk than you are comfortable with

When investing, it's important not to put all your eggs in one basket

We take a global, multi-asset view to building investment portfolios

Time in the market, not timing the market

In our experience, taking a longer-term approach to investing delivers better returns over time

Governance & Process

We use our past experience and a robust governance process to monitor and control every investment decision made

Understanding your attitude to risk

When choosing how and where to invest, you need to establish a plan that reflects your investment goals, perspective on risk and the amount you are willing to invest. Establishing your attitude to risk is essential. How you feel about the prospect of placing money at risk and your ability to accommodate any potential loss in value is uniquely personal to you. An investment which seems full of exciting potential to one individual can seem too risky to another.

Whether you are investing for the short, medium or long term is also important, and will have an impact on how you view risk. With a longer time horizon you may be happy to accept more risk for greater potential returns to achieve your objectives, however, the closer you get to your goal the less risk you are likely to want to be exposed to, and your investment approach will need to be reviewed and adjusted accordingly.

Even the best laid plans can't be expected to cope with all that life throws at you, and there are likely to be times when one-off events prompt a reappraisal and adjustments to your finances. There may be scenarios such as an inheritance, where you now suddenly have more wealth to manage than before or a divorce where a change in your circumstances will often necessitate a complete financial review. Either way, you will have to reassess your tolerance and willingness to take risk, particularly in the context of your long-term planning or retirement.

It's not just future investment decisions that are likely to be affected, and you will probably find that any existing investments will need reviewing in terms of their suitability. Tweaking around the edges of your existing portfolio might not be sufficient and it makes sense, when things fundamentally change, to undertake a full financial health check – one that results in your finances being fully aligned to your new circumstances.

Diversification is key

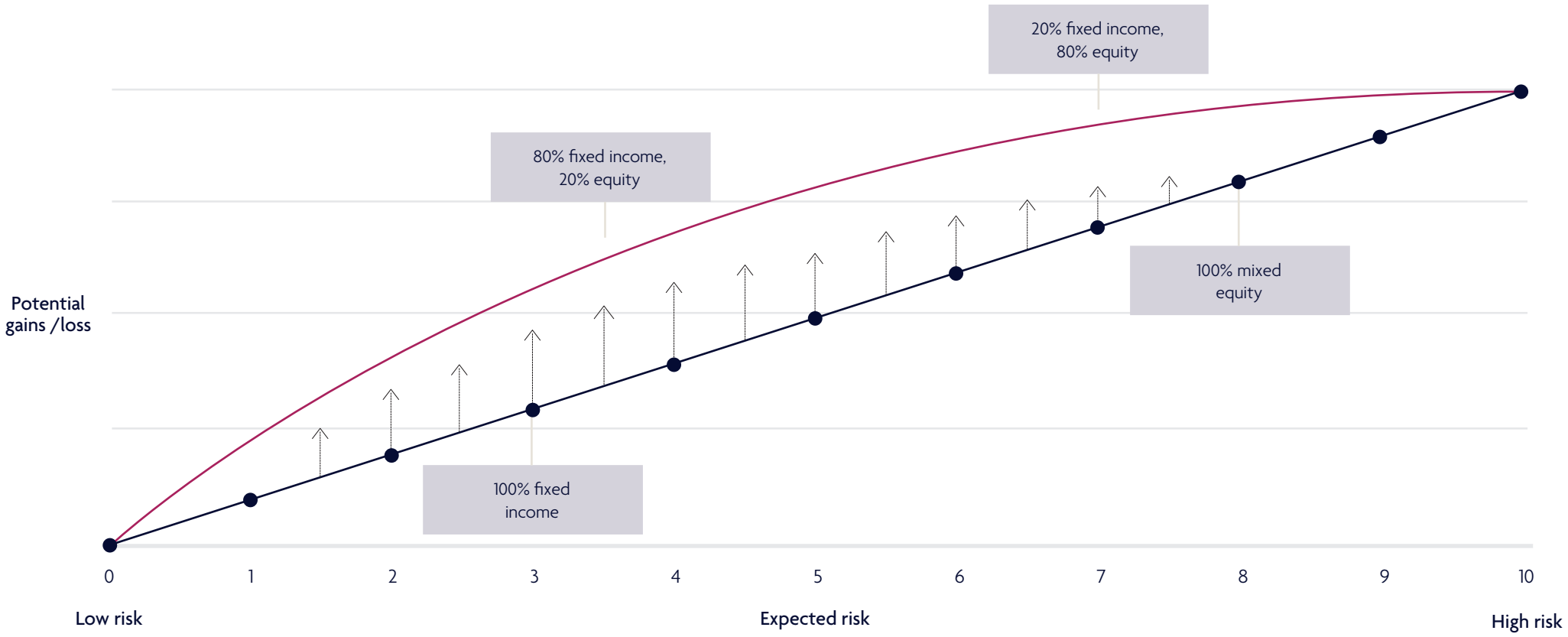
Holding a range of different investments is one of the foundations for investment success. By not putting all your eggs in one basket you are limiting the impact of loss in any particular area and giving yourself the opportunity to generate investment performance from a range of different sources.

Get the balance right - getting the right blend between assets involves more than a random selection and requires a careful assessment of their respective characteristics, behaviours and interrelationships. Getting the balance right between different asset classes is key!

Some asset classes – like cash and bonds have more 'defensive' characteristics, whilst equities - which carry more risk - can offer greater growth potential for your portfolio. Ultimately, you should look to have 'balance', providing scope for out-performance, whatever the prevailing financial backdrop.

Diversified portfolios

Effective diversification means a higher expected return for a given level of expected risk. This is achieved by combining assets which can reasonably be expected to behave differently over time, as illustrated by the pink performance line below.



Past performance is not a guide to future performance and should not be relied on.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Chart is figurative only.

Why a diversified investment strategy is important?

Use the colour coding to see how the performance of various asset classes can vary from year to year.

Index	Asset Classes	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
FTSE All Share	UK Equities	19.6 US Equities	17.2 Japanese Equities	39.6 US Smaller Cos.	25.4 EM Equities	5.1 GI Bonds	25.6 US Equities	17.6 Asia Equities	27.1 US Equities	1.4 Cash	18.8 US Equities
Numis Smaller Companies(Ex-ICs)	UK Smaller Companies	14.7 Gilts	11.1 UK Smaller Cos.	32.8 US Equities	20.3 Asia Equities	0.6 US Equities	25.2 UK Smaller Cos.	16.6 US Equities	21.9 UK Smaller Cos.	0.3 UK Equities	15.7 EU Equities
Russell 1000	US Equities	13.3 US Smaller Cos.	6.1 US Equities	32.6 EM Equities	19.5 UK Smaller Cos.	0.6 Cash	22.3 US Smaller Cos.	15.8 US Smaller Cos.	18.9 US Smaller Cos.	-5.2 Japanese Equities	12.8 Japanese Equities
Russell 2500	US Smaller Companies	12.6 Corp Bonds	5.4 EU Equities	31.7 Asia Equities	17.5 EU Equities	0.5 Gilts	20.5 EU Equities	14.7 EM Equities	18.3 UK Equities	-5.3 Asia Equities	10.3 US Small Cos.
FTSE World Europe ex UK	European Equities	7.6 Global Bonds	2.9 Global Bonds	22.3 Japanese Equities	14.1 Japanese Equities	-0.1 Short-Dated Bonds	19.2 UK Equities	10.7 Japanese Equities	17.4 EU Equities	-6.4 Global Bonds	10.1 UK Smaller Cos.
FTSE World Asia Pacific ex Japan	Asian (ex-Japan) Equities	7.3 Balanced Portfolio	2.3 US Smaller Cos.	21.9 Global Bonds	13.1 UK Equities	-2.3 Corp Bonds	15.2 Balanced Portfolio	9.3 Corp Bonds	9.3 Balanced Portfolio	-7.0 EU Equities	9.9 Corp Bonds
FTSE Japan	Japanese Equities	5.0 Asia Equities	1.7 Balanced Portfolio	19.8 Balanced Portfolio	10.7 Balanced Portfolio	-4.6 Balanced Portfolio	14.9 Asia Equities	8.8 Gilts	8.2 Asia Equities	-7.3 Short-Dated Bonds	8.7 Balanced Portfolio
MSCI Emerging Markets	Emerging Market Equities	4.1 Short-Dated Bonds	1.4 Short-Dated Bonds	19.7 EU Equities	10.5 US Equities	-4.8 US Smaller Cos.	14.4 Japanese Equities	8.6 EU Equities	2.1 Japanese Equities	-8.5 Balanced Portfolio	8.3 Asia Equities
ICE BofA UK Gilt	Gilts	3.9 EM Equities	1.0 UK Equities	16.8 UK Equities	6.2 US Smaller Cos.	-6.8 Asia Equities	13.9 EM Equities	5.6 Global Bonds	0.1 Cash	-8.5 US Smaller Cos.	7.9 UK Equities
ICE BofA Sterling Corporate	Corporate Bonds	2.4 Japanese Equities	0.5 Corp Bonds	11.9 Corp Bonds	5.2 Corp Bonds	-7.9 Japanese Equities	11.4 Corp Bonds	4.7 Balanced Portfolio	-1.0 Short-Dated Bonds	-9.4 US Equities	6.9 Short-Dated Bonds
ICE BofA 15 Year Sterling Non Gilt	Short-Dated Bonds	1.2 UK Equities	0.5 Gilts	10.6 UK Smaller Cos.	1.9 Gilts	-9.3 EM Equities	7.3 Gilts	3.1 Short-Dated Bonds	-1.6 EM Equities	-10.0 EM Equities	4.6 Cash
ICE BoA Global Broad Market	Global Bonds	0.4 Cash	0.5 Cash	10.6 Gilts	1.8 Short-Dated Bonds	-9.5 EU Equities	3.9 Short-Dated Bonds	0.2 Cash	-3.3 Corp Bonds	-17.9 UK Smaller Cos.	3.7 Gilts
BoE Sterling Overnight Index Averge 'SONIA'	Cash	0.2 EU Equities	-4.4 Asia Equities	4.2 Short-Dated Bonds	0.3 Cash	-9.5 UK Equities	2.7 Global Bonds	-4.3 UK Smaller Cos.	-4.4 Global Bonds	-19.9 Corp Bonds	3.6 EM Equities
Blend of indices*	Balanced portfolio	-1.9 UK Smaller Cos.	-10.0 EM Equities	0.4 Cash	-2.3 Global Bonds	-15.4 UK Smaller Cos.	0.7 Cash	-9.8 UK Equities	-5.3 Gilts	-25.1 Gilts	-0.4 Global Bonds

Source: FE fundinfo. All returns as at calendar year end in GBP

You should not use past performance as a suggestion of future performance. It should not be the main or sole reason for making an investment decision.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

*Balanced Portfolio uses Openwork's Balanced Strategic Asset Allocation index equivalent as follows:

28.5% FTSE All Share	10% MSCI Emerging Markets
1.5% Numis Smaller Companies ex Investment Companies	14% ICE BoA UK Gilts All Stocks
13.5% Russell 1000	5% ICE BoA Global Broad Market
1.5% Russell 2500	6% ICE BoA Sterling Corporate
5% FTSE World Europe ex UK	1.25% ICE BofA 1-5 Year Sterling Non-Gilt
7% FTSE Japan	3.75% LIBOR GBP 3 months
3% FTSE World Asia Pacific ex Japan	*Portfolio is rebalanced every 6 months in February and August.*

Time, not timing

Be in it for the long haul

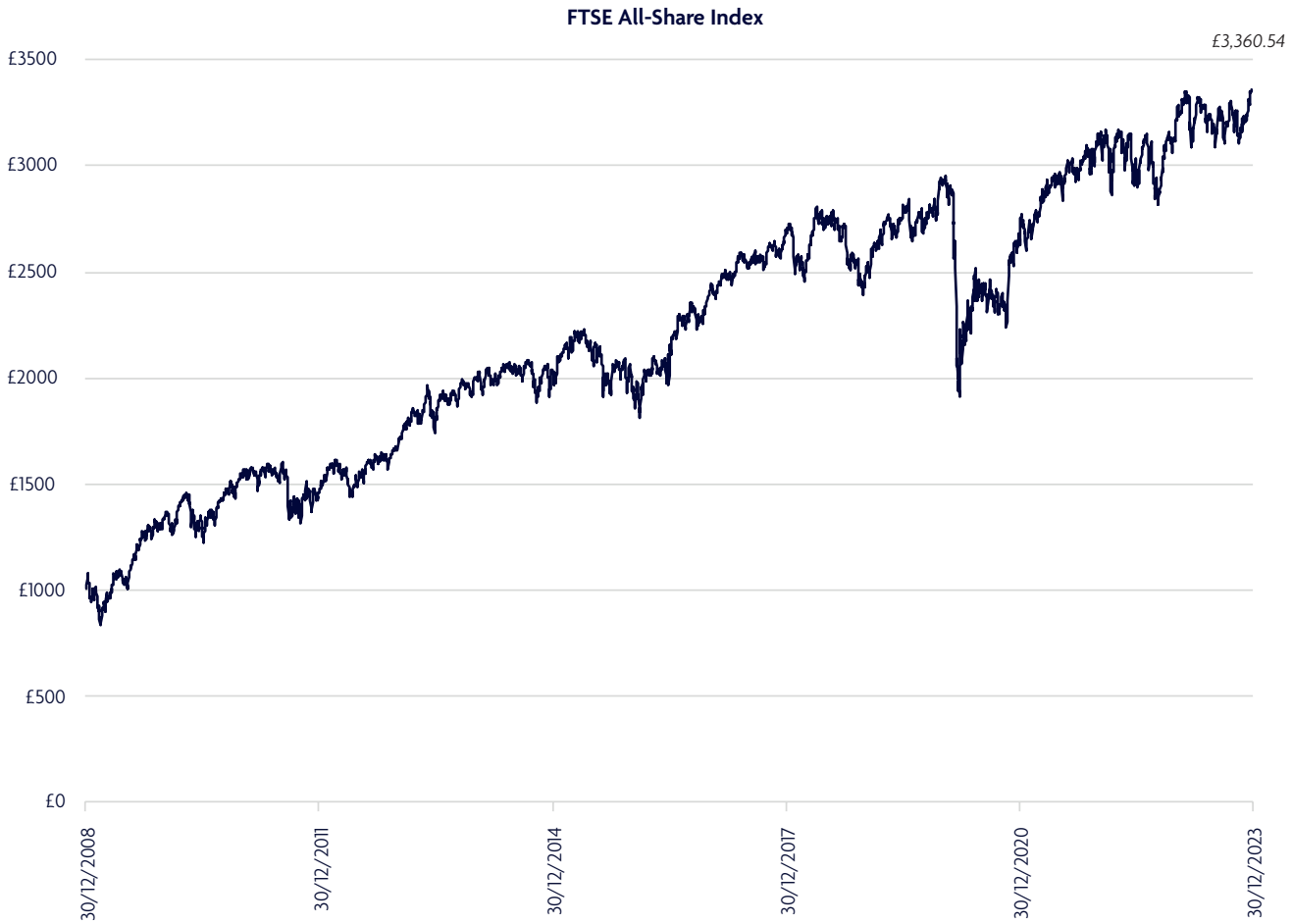
We've looked at some of your investment options – their good & bad points and what they can offer your investment portfolio. For all their differences they do share one thing in common – it can take time for them to maximise their potential.

It's time, not timing, that really matters in the world of investment.

Although the timing of buying and selling investments can be important, over a longer period, short-term price movements should have less effect on your investment and it should have more time to grow.

The chart shows how an investment of £1,000 in the UK stock market would have grown into over £2,200 over the last 15 years. The progress isn't totally smooth however with markets suffering setbacks from time to time – the 2008 Credit Crunch and more recently the Covid-19 pandemic among the most notable.

Past performance is not a reliable indicator of future performance and should not be relied upon.



Source: Bloomberg as at 18/01/2024. Net income reinvested.

Time, not timing (continued)

Staying invested

Although such episodes can be extreme (and painful) it makes sense to look beyond the here and now and focus instead on the timescale that really matters – the long-term one.

After each drop, equities have soon gone on to resume an upward trend and maintain their historic outperformance of other asset classes. However, it should be remembered that past performance is not a guide to future performance.

Can you time the market for success?

The fact that markets can experience sharp falls and periods of uncertainty means you should really be willing to invest for a minimum of five years. But what if it were possible to time your investments to harness the markets' ups and downs for your benefit – selling at the peaks and buying at the lows?

Indeed, the latter can have a huge effect – just look at the table to see how the average annual returns of some of the world's stock markets can be affected when you strip out some of the top.

Forecasting such events is nigh on impossible and bad news for those investing their cash just before a downturn. Fortunately, given time, financial markets have proven capable of shrugging off short-term falls – and whilst returns in some years are much higher or lower, the average annual gain made by the UK stock market is around 5.64%.

Average Annual Returns over 15 years - effect of missing best days...

Index	Stayed fully invested	Best 10 days missed	Best 20 days missed	Best 30 days missed
FTSE All-Share	8.42%	5.08%	2.76%	0.75%
S&P 500	15.26%	10.13%	7.14%	4.75%
DAX 30	7.99%	3.57%	0.43%	-2.17%
CAC 40	8.83%	4.08%	0.95%	-1.72%
Hang Seng	5.57%	1.52%	-1.47%	-4.02%

The table above reflects compound annual growth rates of select global indices over 15 years. It also includes, by comparison, compound growth rates if you were invested in each index over the best 10, 20 and 30 days missed. All returns based in sterling.

Source: Bloomberg as at 30 June 2023

Your investment is protected by a robust governance process

1. Omnis Investment Team
The Omnis Investment Team looks after your money and sits at the heart of our investment proposition.

2. Weekly Analyst Committee
The Analyst Committee meets weekly and is the Investment Team's chance to discuss the allocations to the various Omnis funds and market activity, as well as upcoming economic events.

3. Monthly Sector Reviews
A Monthly Sector Review puts each of the investment classes that we include in our portfolios under constant scrutiny.

4. Quarterly Asset Allocation Reviews
The Quarterly Asset Allocation Review looks at all the investment classes in detail to assess their long-term prospects, with these views then translated into fund selection for our portfolios.

5. Investment and Proposition Committee
The Investment and Proposition Committee meets at least monthly and is responsible for setting our asset allocation policy. It is also responsible for forming our list of recommended funds. Membership is made up of senior management from Openwork & Omnis, as well as independent insight from a global leading investment consultant.

6. Investment Performance and Risk Committee
The Investment Performance and Risk Committee is responsible for selecting and monitoring the managers of our Omnis range of funds.

7. Investment Mandate Structure
The Investment Mandate Structure is the strict set of parameters within which the Investment Team can operate to ensure you are not exposed to excess or unnecessary risk.

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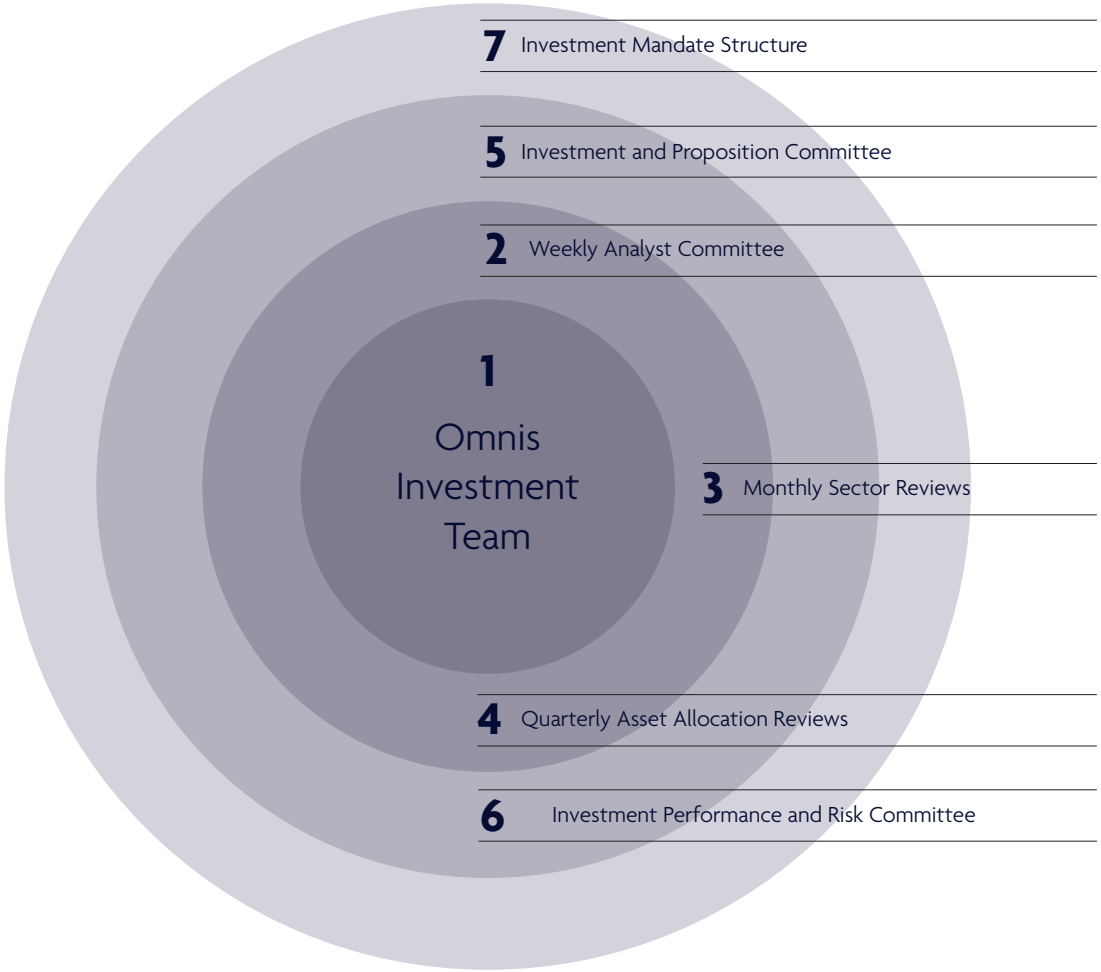

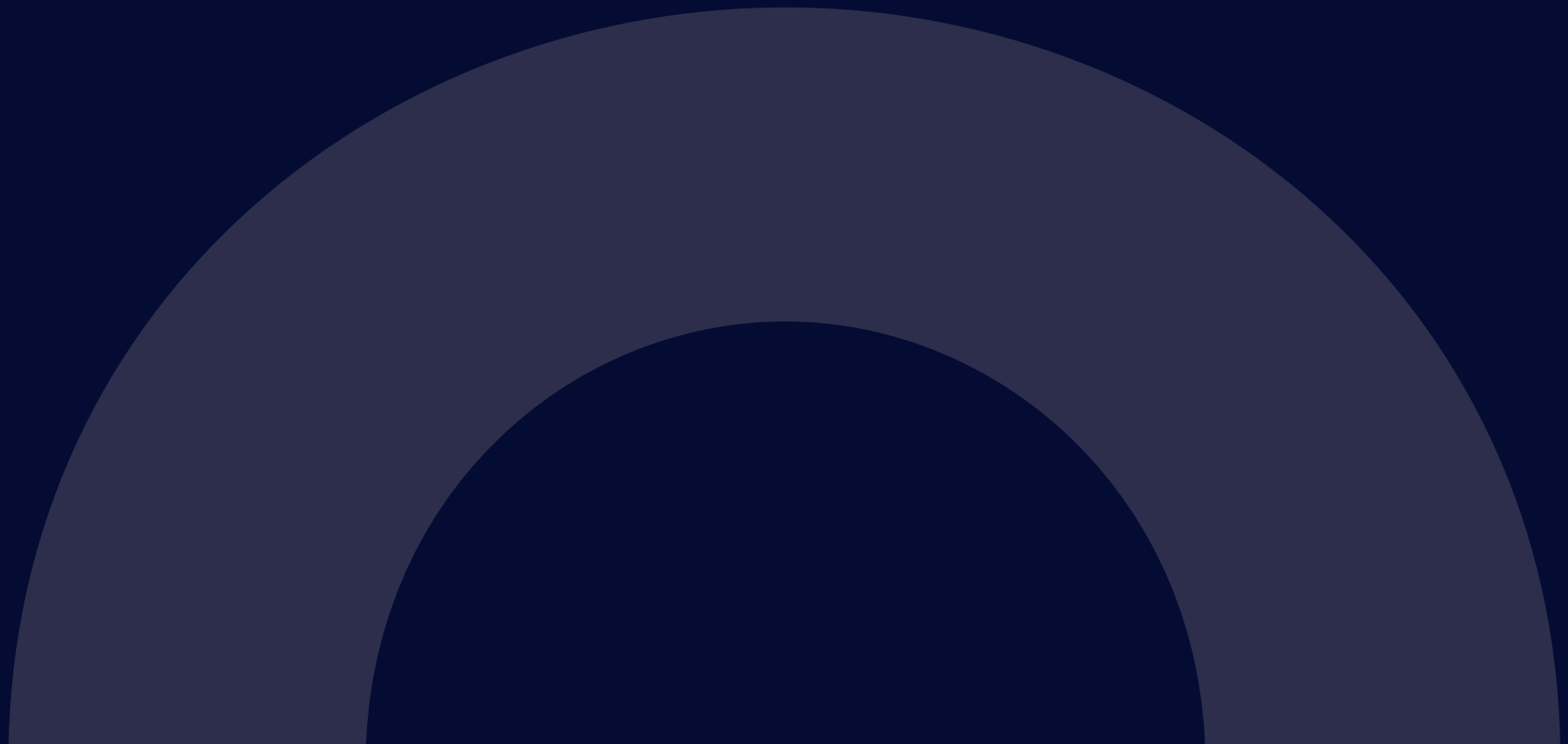

Your Openwork Partnership Adviser

Working in partnership with you, your adviser will gain a clear understanding of your current situation and future goals and establish your attitude to risk.

Taking these things into account, they will research an investment solution which they think is appropriate for you. Before proceeding, they'll discuss it in detail so that you understand and feel comfortable with it.

Your adviser will work with you to make sure you stay on track over the years ahead, and through regular catch ups you can discuss changes to your requirements or circumstances and review your investment choices.

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As the Authorised Corporate Director of the funds, Omnis Investments Limited is paid an annual management charge from the funds. This charge is part of the Ongoing Charges Figure disclosed in the Key Investor Information Document.

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