Your guide to investing

Introduction

We know there's a lot to think about when it comes to investing your money into a pension. And it can all seem a bit daunting if you're new to investing or haven't had a pension plan before.

With this in mind, we've produced this guide to help you understand the basics of investing, and will look at:

- the types of investments you can choose and how they work
- the different things (called assets) your money could be invested in
- the different types of fund management
- the charges we'll make for managing your investments
- the balance between risk and reward
- what to think about when deciding how you want your pension savings to be invested
- the additional help and guidance available.

What is a fund?

A *fund* is a type of collective investment in which lots of people invest their money in the hope of increasing – or at least protecting – its value.

A *fund manager* chooses where your money is invested and makes sure the objectives of the fund are being met.

The objectives of a fund will determine the type of things the fund manager chooses to invest in. Different funds invest in different assets and this can have a big effect on how the fund performs.

There are four main asset types that funds invest in. These are company shares, property, bonds and cash. You can compare the different characteristics of each in the table on the next page.

To learn more about the relationship between investment performance and investment risk see **Balancing risk and reward** on page 9.

It's worth remembering there are a number of factors that will affect a fund's performance, including where the assets are located, the type of commercial activities associated with the fund and the size of the market or sector in which the fund is invested.

To give you an example, a fund that invests in a diamond mine in Siberia has the potential for high returns. But, because of the risky nature of this type of business, there's also a much greater chance that you may lose some or all of your money.

What happens when I invest in a fund?

Each fund is divided into units. When you invest in a fund, you buy units in that fund. The price of units will change as the value of the underlying assets purchased by the fund changes. If the unit price goes up, the value of your investment will increase. Similarly, if the unit price falls, so will the value of your investment.

The four main types of asset

	Company shares	Property	Bonds	Cash
What is it?	A share in the value of a company. Also known as equities.	Commercial property such as offices, shops, warehouses, factories and other business buildings.	A loan which can be returned on a specified future date. Also known as fixed interest securities and 'gilts'.	Short-term deposits with governments and financial institutions such as banks and building societies.
Who issues them?	Public listed companies.	N/A	Governments or companies.	N/A
Can they generate an income?	Yes. If the company makes a profit, it may return money to shareholders in the form of a dividend.	Yes. The rent paid by tenants effectively generates a regular income.	Yes. The issuer will normally make regular interest payments to the holder.	Yes. Although the rate of interest on cash deposits is normally quite low.
What is the potential for investment growth?	If the value of a company goes up, the value of each individual share will increase. Equally, if the value of a company goes down, the value of each individual share will decrease.	If the value of a property goes up, the value of your investment in that property will also increase. Equally, if the value of a property goes down, the value of your investment will decrease.	If a bond is sold for more than the original purchase price, the value of your investment could increase. However, if it is sold for less than the original purchase price, the value of your investment could decrease.	If the interest earned is retained your investment will go up in value. However, any growth is likely to be limited. If the interest earned is not retained your investment will not go up in value and, as a result of inflation, may become worth less in real terms.
How volatile are they?	**High.** The price of a share can be very volatile. This means it can go down or up in value often and, sometimes, by large amounts compared to other less volatile investments. In return, they offer the potential for growth over the long term.	**High.** Property prices can be very volatile. They can go down or up sharply in the short term and – in the case of a fall in price – may take a long time to recover. In return, they offer the potential for growth over the long term.	**Moderate to high.** Although they are sensitive to interest rate movements and inflation, bonds tend to be less volatile than investments in property or shares. As a result, they are more likely to provide modest investment returns compared to investments in property or shares.	**Low.** Cash is widely regarded as the least volatile investment asset. However, although it is less likely to go up and down in value, investment returns are likely to be low.
Can they fall in value?	Yes but only if the value of the company decreases, causing the value of each individual share to decrease.	Yes but only if property prices fall, causing the value of your investment to fall.	Yes although the value of your investment is only likely to fall if interest rates rise and could increase if interest rates fall.	Yes, if the interest earned fails to keep pace with the rate of inflation, the value of your money will fall in real terms, although any fall in value is likely to be limited.
How long should I hold onto this investment?	Medium to long term. Normally for at least 5 years.	Long term. Normally for more than 5 years.	Short to medium term. Normally for 3 to 5 years.	Short term. Normally for 1 to 3 years.

Active and passive fund management

There are two main types of fund management: *active* and *passive*.

Active fund managers take a 'hands-on' role in making investment decisions. They research the market looking for investment opportunities. They're likely to buy and sell assets more often than a passive fund manager in the hope of making investment returns that are better than the average for the market or sector they are in.

Passive fund managers adopt a more 'hands-off' approach. Instead of trying to perform better than a particular sector or market index, for example the FTSE 100 Index, they aim to match it. As a result, passively managed funds tend to have lower charges than funds that are actively managed.

Typically, an actively managed fund will invest in fewer assets than a passively managed fund. This means that the performance of each individual asset is likely to have a much bigger impact on the overall value of the fund, than if the fund was invested in lots of different assets.

It's also important to be aware that, even when they invest in similar assets, actively managed funds generally take on more risk than passive funds. This means that, although actively managed funds may be more likely to go up in value in the long term, there's also a greater chance that you might lose some or all of your money.

To find out more about the risks of investing see the 'Balancing risk and reward' section on your scheme website where you will also find **Your guide to risk and reward** (PDF).

What are the charges for investing?

For more information on the individual fund charges, please refer to your scheme documentation or log on to **Manage Your Account** and access the relevant fund factsheet.

If you invest in a lifestyle profile, the charges you'll pay will be calculated on the proportion of your pension savings invested in each fund at that time.

Choosing an externally managed fund

All of our funds are managed by professional fund managers.

If you invest in a fund that is not managed by Legal & General, your savings will still be used to buy units in a Legal & General fund. The Legal & General fund will then invest in the corresponding externally-managed fund (which is known as the 'authorised fund').

Legal & General's Target Date Funds

A target date fund enables you to match your investment strategy to a 'target date' in the future, normally your selected retirement date.

Your pension savings are invested in a fund along with people who think they're likely to start taking money from their pension savings at a similar time as you.

The fund manager invests your money in a range of assets including company shares, government and corporate bonds, property and other alternative assets, to give you the benefit of diversification. Put simply, by not putting all your eggs in one basket, you aren't reliant on the performance of any one type of asset.

The way your savings are invested over time will depend on how close you are to your target date and will be adjusted for you, so you don't have to do it yourself.

Initially, most of your money is invested in company shares, with the aim of providing the long-term growth you're looking for when retirement is still a long way off. But you'll have to accept that your savings are likely to go up and down in value in the short term.

As you get closer to retirement, more of your savings are moved into government and corporate bonds. Although they may not grow by as much, your savings are less likely to go down in value, giving you more stability at the time when you want it most.

For more details, including the advantages and disadvantages of investing in one of our Target Date Funds, please see our **Guide to the Target Date Funds** (PDF).

What is a lifestyle profile?

A lifestyle profile is an investment strategy that automatically moves your money, over a period of time, into funds that reflect the way you want to take your money when you get to your selected retirement date, such as taking a regular income or cash lump sums.

In most cases, a lifestyle profile will also look to invest your pension savings in funds that reflect the way you want to take your money when you get to your retirement date. To learn more about the different ways you can take money from your pension pot, see our **Freedom and choice** guide (PDF).

The process of automatically moving your savings from one fund to another will stop once you reach your retirement date. This means that, if your plans change and you don't take your money as planned, your pension pot may not be invested in a way that reflects your needs. So it's important to review your retirement plans on a regular basis, both before and after your retirement date, to ensure that the funds in which your pension pot is invested remain suitable for your needs.

To find out more about the advantages and disadvantages of investing in a lifestyle profile, see one of our factsheets, which you will find by logging into **Manage Your Account**.

Balancing risk and reward

When it comes to investing your money, if you want the potential for better returns, you'll normally have to accept more risk.

Put simply, in return for the possibility that the value of your savings will go up by more over the long term, there will usually be a greater chance that your savings will go down and up by more and more often over the same period. This means that, if you choose a high-risk fund, you could lose a large part – and in some cases all – of the money you have invested.

By investing in a low-risk fund, you're unlikely to lose your savings but they're unlikely to go up in value by as much.

This is what is known as the balance between risk and reward.

When you put your money into a bank account, there's almost no risk of losing it. But the interest you'll get – your reward, if you like – is likely to be low.

By comparison, investing in the shares of a single company is much more risky because the value of your shares will be directly affected by things that happen to that company.

If the company performs poorly the share price is likely to fall and, in the worst case, you could lose all your money. However, if the company is really successful, the share price is likely to increase, which means your investment could be worth much more than you originally put in.

Balancing risk and reward

Diversification

One way to spread your investment risk is to invest in a mixture of lower and higher-risk assets. This approach is known as diversification. Put simply, it's a way of reducing risk by making sure you don't put all your eggs in the same basket. The hope is that, if one particular investment underperforms, this will be offset by better than expected performance from one or more of your other investments.

Pooling your investments

When you invest just on your own, it's likely you'll only be able to make a small number of different investments. However, if you buy into funds that pool many investors' money, you'll be able to buy a share of a much wider range of investment types, for example:

- Fixed interest securities
  (such as corporate bonds, government bonds, or both).
- Commercial property.
- Company shares.
- Cash or cash-like investment

The value of your investment will still go down if the market goes down, but it's likely that you will lose less if individual investments do not do well.

Identifying investment risk

When it comes to investing your pension savings, you'll need to consider a number of different types of investment risk. Here are just a few of the more common ones.

Investment Risk

This is the risk that your pension savings may fall in value and it's a risk that applies to all funds.

If you're a long way from your retirement date, you may be less concerned about short-term falls in the value of your savings and may be more willing to accept more risk in the short term for the chance of higher rewards over the longer term.

Expectation Risk

This is the risk that your pension savings may not grow by as much as you want or need.

It's important to check the value of your pension savings regularly to see whether you're on track to meet your goals. If your investments aren't performing as you expected, you may need to consider increasing your pension contributions or delaying your retirement

Inflation Risk

This is the risk that the price of goods and services will increase by more than the value of your investments.

It means that, if your pension savings don't grow in line with inflation, you may not be able to buy the same things with those savings in the future that you would be able to buy with them today.

Fund Specific Risks

Because different funds invest your money in different assets, they're all exposed to different risks. The specific risks that apply to each of the funds available are detailed on the fund factsheets, which you will find by logging into **Manage Your Account**.

For a more detailed look at investment risk and the various types of risk that you'll need to think about, please see **Your guide to risk and reward** (PDF).

Getting at your pension savings when you need them

- You may not be able to get your money as quickly as you need it. In most cases, you won't be able to take money out of your pension until you are at least aged 55.
- It isn't always possible to cash in investments instantly.
- For example, property may take a long time to sell
- You should consider current market conditions when withdrawing your pension savings. It is important to know that your pension could change in value between our receipt of your request to withdraw your savings and the contractual settlement date when we release the value of your pension.
- If you have other sources of finance, depending on what these are, there may be fewer long-term risks if you access those first.

The value of your pension isn't guaranteed

- The value of individual investments can go down and up every day.
- Investment markets sometimes experience catastrophic conditions where the value of all investment types goes down dramatically. It can take some time for markets to recover from these events.
- Investment types may generally fall or rise in value over longer periods due to economic conditions such as rising inflation or interest rates.

Rating our risk funds

We give each of our funds a risk rating from 1 (the lowest risk) to 7 (the highest risk). For each fund's risk rating, please see the fund's factsheet by logging on to Manage Your Account

Risk ratings are designed to be an indicator of the fluctuations in value that a fund may experience over time and are based on the risks we think they present to your money and assume you will keep your investment for at least 5 years. However, funds can perform higher or lower than the risk rating that they have been given.

Our risk rating methodology

Risk ratings are calculated based on the operational and market volatility of a fund using weekly or monthly returns over a suitable period of time. Volatility refers to the rate at which the price of a fund fluctuates in value over a period of time. We aim to use 5 years worth of fund performance to calculate a risk rating.

Where a fund doesn't have enough historicperformance, we use an alternative to fill the gap – for example, the fund's benchmark.

Example

Volatility intervals	Risk rating
0–0.5%	1
0.5–2%	2
2–5%	3
5–10%	4
10–15%	5
15–25%	6
25%+	7

If two funds both grew by 100% over five years, but one is rated 3 and the other 7, the risk rating shows you how bumpy the ride may be, rather than whether you're likely to get a greater return.

We look at whether this growth is steady over that period, or whether the fund value is volatile: with short-term significant falls and increases.

We update our fund documentation annually and calculate the latest fund risk ratings as part of this exercise. We review these risk ratings regularly and reflect the volatility in the fund value over a suitable period of time.

It's important to think carefully about all the risks outlined and your own personal circumstances, and not just rely on risk ratings. If you have an questions or doubts, it my be best to take advice.

Therefore, when you're looking at where to invest it's important that you don't just rely on our fund risk rating.

Choosing your own investments

This step-by-step guide is designed to help you consider all the relevant things before making any investment decisions.

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Step one

Things to think about before deciding how to invest your pension savings.

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Step two

Identify your own attitude to investment risk.

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Find out as much as you can about investment risk.

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Step four

Review the range and choose funds that reflect your attitude to investment risk.

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Step five

Make sure you're happy with your choice.

Step one

Things to think about before deciding how to invest your pension savings

How much do you understand about investing?
This guide provides a useful introduction to the basics.

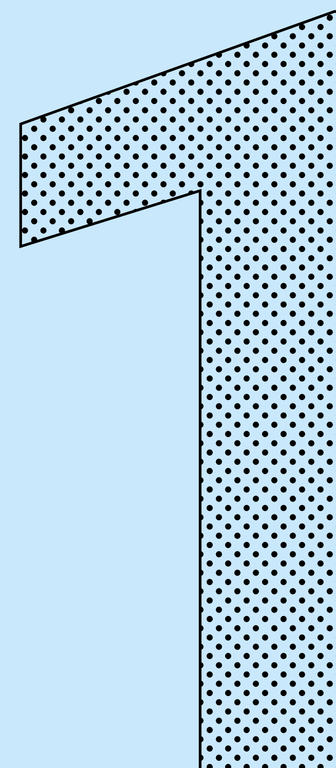
How do you feel about investment risk?
See **Balancing risk and reward** on page 9 to find out more.

How much income do you think you'll need in retirement?
Our **Retirement Planner** includes a tool that can help you calculate how much you might need when you retire.

How soon do you want to take your money?
When you intend to take your money will influence the amount of investment risk you'll be prepared to take.

Can you afford for your pension pot to go down in value?
Your capacity for loss is likely to determine the funds you choose.

How often will you review your investment choices?
This is important, particularly if your plans or circumstances change, or if markets experience a downturn.



Step two

Identify your own attitude to investment risk

When you're deciding whether and where to invest, it's really important for you to understand your attitude to investment risk.

We believe there are four main factors that make up a person's attitude to risk:

- Whether you prefer certainty or like speculating with your money.
- How prepared you are to accept the ups and downs of investing – both in the short term and the long term.
- How much you can afford to lose.
- What you want from your money and when.

There is a default investment option for those members who don't want to make investment decisions.

If you wish to make your own investment choices, you will need to make sure you're comfortable with the risks of investing and the risks of the specific funds that you choose.

If you're not confident making these decisions, you should speak to a financial advisor. You can find one in your local area at unbiased.co.uk.

Please note that advisers will usually charge for their services.

It's important to keep your own attitude to investment risk and the risk profile of your investment portfolio under review.

Your circumstances might change and you may want to change the amount of risk you're exposed to.

Step three

Find out as much as you can about investment risk

All types of investment carry a risk.

Because different funds invest in different things, this can have a big effect on how the fund performs and how risky it is.

See **Balancing risk and reward** on page 9 to find out more.

There are lots of different types of investment risk. So it's important to make sure you understand what these are, before making any decisions.

See **Identifying investment risk** on page 11 to learn more.

Step four

Review the range and choose funds that reflect your attitude to investment risk

We give all of our funds a risk rating, using a scale of 1 (lowest risk) to 7 (highest risk).

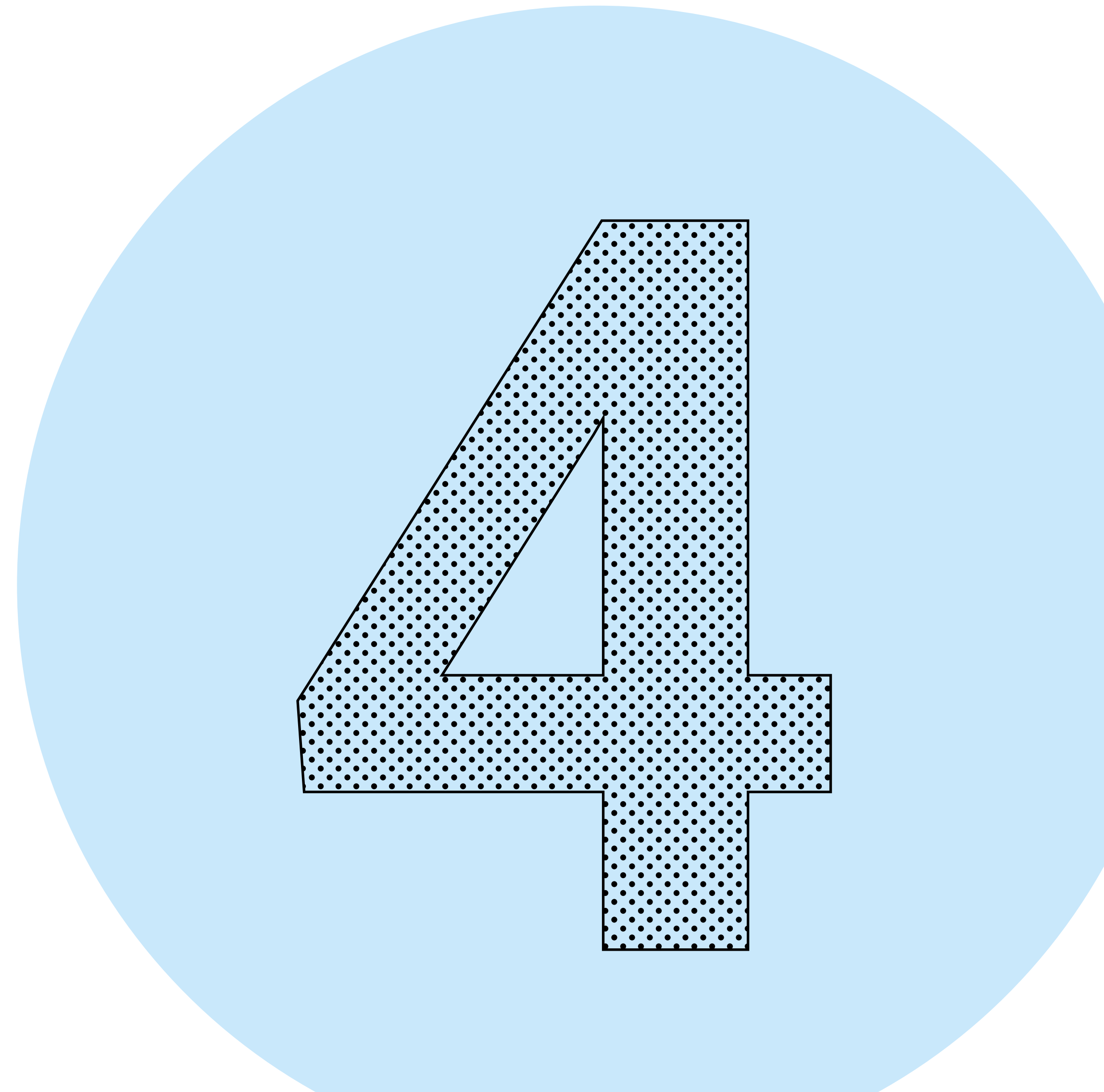
Our fund risk rating methodology is based on the volatility in a fund's value, typically over the previous five years. Our risk ratings aim to give you an idea of the potential for you to lose money over time. However, they cannot predict what will actually happen, or when. Future investment conditions may mean that you lose more than is currently suggested by the risk rating.

See **Rating our risk fund** (P12)
for an explanation of how we calculate our fund risk ratings.

You'll be able to compare the relative risk of investing in one fund compared to the other funds in that range by logging on to **Manage Your Account** and clicking on the relevant fund factsheets.

Having a better understanding of your attitude to investment risk could help you choose investments that are suitable for you.

It's also useful to remember that, although you can choose funds from a single risk rating category if you wish, you may also be able to achieve your investment goals by choosing funds from a range of categories.



Step five

Make sure you're happy with your choice

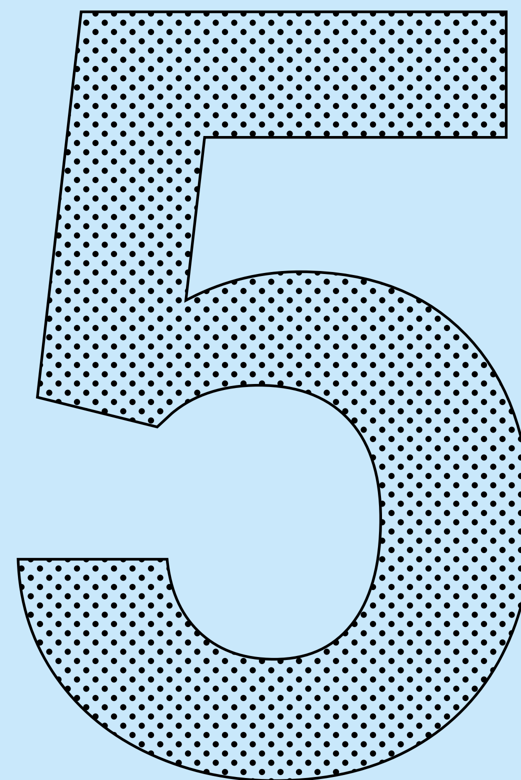
It's important to be comfortable with the risks you're going to take before investing.

It's equally important to review your fund choices regularly to ensure they remain appropriate for your needs.

To do this, go to your scheme website and select **Manage Your Account**.

You may want to seek further guidance or financial advice before making any investment decisions.

For more information see **Where can I get more guidance or advice?** on the following page.



Where can I get more guidance or advice?

For more information on the investment options available to you and how to change the way your pension savings are invested, please go to your scheme microsite.

If you'd like some advice or just want to talk to someone, there are a number of options available to you.

Guidance

If you just want to find out a bit more about your options at retirement, the following organisations can help:

MoneyHelper

MoneyHelper is a free, government organisation that offers guidance to make money and pension choices clearer.

To find out more or book an appointment visit **moneyhelper.org.uk** or call **0800 011 3797**.

Pension Wise

Pension Wise is a government service from MoneyHelper that offers free, impartial guidance about your defined contribution pension options.

To find out more or book an appointment visit **moneyhelper.org.uk/pensionwise** or call **0800 138 3944**.

Financial advice

If you're still unsure about your options we recommend you speak to a financial adviser.

To find a financial adviser in your local area go to **unbiased.co.uk**

Please note, financial advisers will usually charge for their services.

Legal & General Assurance Society Limited
Registered in England and Wales No. 00166055
Registered office: One Coleman Street, London EC2R 5AA

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