Introduction

The purpose of this guide is to give you information about type of assets that we make available, together with details of the main risks that may be associated with those assets. However, it isn’t a substitute for professional financial advice – it’s intended for customers working with their adviser. If you’re reading this and you don’t have an adviser, you should seek financial advice before you decide where to invest. Some of the assets covered in this guide will not be available for you to invest in if you do not have an adviser able to manage your account online.

It also isn’t intended to promote any of the assets it describes, it is given as information to help you understand the nature of these assets and the risks associated with them.

This guide provides general information about the:
• asset classes available through the Zurich Portfolio, and
• general risks associated with those asset classes.

It will help you to decide what types of assets might be suitable for your attitude to risk and investment objectives.

You can only invest in assets that we make available through the Zurich Portfolio. Zurich is not an adviser or investment adviser and it cannot advise you as to the suitability or risks of any particular asset.

You, with the help of your adviser, will be responsible for choosing the assets you invest in. As such, you should make sure that you are satisfied that you understand the assets you invest in and the risks associated with them – before you invest.

We’re responsible for giving your adviser and you access to clear information about the types of assets available, and the risks you should consider. However, your adviser is responsible for explaining what the assets are, how they work, and the specific risks associated with them. They will help you decide on a suitable investment strategy and to choose the assets that suit your investment objectives and attitude to investment risk.

As part of this process, your adviser will give you information about individual assets. The information you’ll receive will depend on the type of asset(s) selected. For funds, this may include:
• asset information sheets,
• key investor information documents,
• supplementary information documents,
• simplified prospectus.

These documents will give you specific information about the asset(s) – including specific asset risks and charges.

If you’re considering investing in exchange-traded assets, you should make sure that your adviser has fully explained the features of the assets and the risks associated with them. They will also provide you with any appropriate information, including specific risks and charges, which may include, for example:
• company reports,
• market reports, and
• scheme prospectus.

There are investment risks associated with all the assets that we make available. Each asset has a different level of risk which is dependent on a variety of factors.

The assets that will be appropriate for you will depend on your own financial circumstances, your investment objectives and your attitude to risk – all of which will be assessed by your adviser.

Certain assets are classed as ‘complex investments’, these require an additional level of investor understanding and competence. If your adviser does not have the necessary FCA permissions to trade in these assets and you are not invested in a model portfolio managed by an investment adviser, you will not be able to invest in them.

If you don’t want to choose and review the assets with your adviser, you can ask them to invest in a model portfolio managed by an investment adviser who manages assets on a discretionary basis. The investment adviser will charge you for this service. You should speak to your adviser about this option.

In the event of the insolvency of a financial institution with which your money is deposited or invested, you may lose some or all of your money that isn’t protected under the financial services compensation scheme. More information about this scheme, the investments it might cover and compensation limits are described in the Zurich Portfolio Terms and conditions.
Available asset types

We make a wide range of assets available in a range of asset classes. These provide you with the opportunity to tailor your investment portfolio to meet your individual needs.

The assets described in this guide are available to customers investing in a Zurich Portfolio. Some of the assets described in this guide will not be available on every account available within a Zurich Portfolio.

Cash

Why might I hold cash?
This may be cash held in your Zurich Portfolio Cash Account, or Cash ISA, or as available cash in your accounts as, for example, a result of payments, investment income and interest on cash balances.

What are the risks of holding cash?
The investment risks associated with cash are low. However, your capital may be at risk in the event of the failure of the financial institution with which the cash is deposited. Also, when interest rates are low, returns may be less than the charges on the account in which the asset is held. Irrespective of the level of interest rates, returns on cash may be less than inflation.
What are they?
Investment funds include collective investments schemes that enable people to collectively ‘pool’ their money and invest in a wider spread of underlying assets than they could buy individually. This lowers the costs of investment and reduces the associated risks, because the wider spread of assets means funds are less vulnerable to the poor performance of any single underlying asset. The asset holdings of each fund are managed by the fund manager in line with the fund’s objectives.

Funds enable you to spread your investments across a wide range of asset types, countries, economies and market sectors.

Where available, your adviser can provide you with Key Investor Information Documents which provide the main details about the available funds. If you want more detailed information, your adviser can provide you with supplementary information documents or scheme prospectus.

We provide access to a range of collective investment schemes that may include:

- Mutual funds
  A range of collective investment schemes including:
  - unit trusts,
  - open ended investment companies (OEIC),
  - Luxembourg based société d’investissement à capital variable (SICAV),
  - Dublin based open ended investment companies (OEIC), and
  - any other collective investment scheme we make available to you through your accounts.

- Non-retail funds
  These are funds that we make available through your accounts that are not generally promoted to retail clients. For example:
  - other FCA recognised funds
  - professional/experienced investor funds, or
  - specialist funds.

  These can include certain hedge funds and other types of collective investments. Such funds are unlikely to be suitable for retail investors acting without the advice of an appropriately authorised adviser or where an investment adviser is managing assets in a model portfolio.

How are they managed?
Fund managers have extensive knowledge of the companies, markets and territories in which their funds can invest. They use this expertise to decide on how, where and when to invest. They will do so in line with the stated aims and objectives of the fund, which will be explained in the fund’s simplified prospectus or supplementary information document. There are charges associated with fund management activity carried out by fund managers. These charges are typically reflected in the fund’s price.

Funds can be actively managed, meaning the fund manager constantly reviews the assets in which the fund invests and actively changes them to reflect changing market conditions, or be passively managed, meaning they invest specifically in assets that mirror a market index.

Each fund manager is responsible for:

- setting the fund objectives, managing the fund and taking all investment decisions about buying and selling underlying assets within the fund,
- managing the fund in line with its objectives and all regulatory and legal requirements, and
- setting the fund charges.
What do mutual funds invest in?
The assets (or securities) that funds invest in generally fall into one or more of the following asset classes:

- Equities/shares
- Bonds
- Money market/money market instruments
- Property
- Derivatives
- Other funds (for example, fund of funds)

Equities
These include shares in publicly listed companies as well as other assets (such as exchange-traded funds and investment trusts) that are traded on a stock exchange, such as the London Stock Exchange (LSE). They provide the potential for both growth and income.

Bonds
These may be bonds issued by the UK Government (known as Gilts), or corporate bonds issued by companies. They are issued by governments and companies as a means of raising capital from the financial markets to fund their spending plans – the issuer pays interest to the holder and the face value is payable on maturity.

Money market/money market instruments
This is a broad term that includes straightforward cash investments, such as money held in fixed-term accounts, and other ‘near-cash’ assets such as commercial paper and floating-rate notes. These ‘near-cash’ assets may be short-term debt that a company has issued to cover short-term capital requirements, or securities issued by a financial institution. However, the term could be used to refer to more complicated and riskier financial instruments. You should check with your adviser or the scheme prospectus to find out exactly what the fund is allowed to invest in.

Property
The fund manager may invest directly in property, or they may invest in the shares of property companies, or both. Investments in predominantly commercial property, such as shops and offices are designed to benefit from growth through increases in property values and rental income over the long-term (ten years or more). Values are determined by an independent valuer, they will consider market conditions and, in particular, the price received for recent sales.

Derivatives
These are financial contracts between financial institutions and market participants that are generally designed to track the performance of an underlying asset or index. This could be any asset or index, for example, currency, commodity or share index to name a few. Some types of derivatives are very complicated and potentially risky. You should check with your adviser or the scheme prospectus to find out exactly what the fund is allowed to invest in.

What about investing in offshore authorised funds?
These are very similar to UK-based funds, however, as they are based (and regulated) in Ireland and Luxembourg, their tax status is different to that of UK funds. This means that the returns they offer may be different than those from an equivalent UK fund.

The level of investor protection will depend on where a fund is based. Offshore funds may not be covered by the UK’s Financial Services Compensation scheme. Instead, they may be covered by investor protection arrangements in the country in which the fund is based.

There is a risk that changes to the tax regime in the country in which a fund is based will have a negative affect on any income you receive from the fund and its overall value.

Are there any other types of funds?
Non-retail funds are generally higher risk funds, for example hedge funds, used by professional investors using sophisticated investment strategies to try and maximise their returns. Such funds invest in a broad range of assets, including complex financial instruments, that are unlikely to be suitable for, or available to, retail investors. However, they may form part of a wider portfolio of assets managed by an investment adviser. If you are considering investing in these types of funds, you should speak to your adviser.

What are the risks of investing in funds?
The investment risk that relates to any particular fund will depend on the fund’s objectives and the types of assets that it invests in. The specific assets and the associated risks are explained in the various documents available from your adviser. General risks that may apply to funds are described in the ‘What are the risks of investing?’ section starting on page seven.
Exchange-traded assets

What are exchange-traded assets?
These are assets that are only available to buy and sell through an exchange such as the London Stock Exchange (LSE). They are made available to you through our nominated stockbroker.

UK equities and bonds including;
- Company shares
- Permanent interest bearing shares
- Government bonds (Gilts)
- Corporate bonds
- Investment trusts
- Exchange-traded funds

Shares
They are shares in publicly listed companies that are traded on a stock exchange, such as the London Stock Exchange (LSE). They provide the potential for both growth, through increases in share prices, and income from dividend payments. There are different classes of shares, for example, ordinary shares and preference shares.

Government bonds/corporate bonds
These are debt securities issued by governments (UK Government bonds are known as Gilts) and companies as a way of raising capital. They usually pay a fixed rate of interest (known as a coupon) until they mature at the end of a specified period. At maturity, the bondholder will receive the value of the bond.

Bonds can be traded on an exchange, and the market price is related to the prevailing interest rates. Bond prices tend to increase when interest rates fall and decrease when interest rates rise.

Investment trusts
These are companies that use the capital that is invested with them to invest in the shares of other companies or property. Like other companies, they have a specified number of shares which have a market value and which can be freely traded on an exchange. They are traded at a discount (priced below), or at a premium (priced above) the price of the underlying assets they invest in.

Exchange-traded funds (ETFs)
These are traded on an exchange just like shares. They enable investors to get investment exposure to the performance of the underlying assets, market index or other benchmark, without having to invest in them directly. ETFs invest in securities that attempt to track or replicate the performance of an underlying stock market index, other index or market benchmark.

There are two main types of ETFs; those that invest in the underlying assets that form part of the index that they track, and those that invest in derivatives and other financial instruments to try to replicate that performance.

Before you invest in an ETF, it’s important to understand how the ETF will achieve its returns as the level of risk may vary greatly. For example, some ETFs will seek to replicate market performance through complicated investments in derivatives classed as complex investments, these are likely to carry a high level of risk.

Permanent interest bearing shares (PIBS)
These securities are issued by building societies to raise capital. They’re usually fixed-interest securities, but may be issued with a variable rate that will track a particular market interest rate. PIBS are non-redeemable shares that do not have a face value or a maturity date but which pay a specified amount of interest to the holder.

PIBS are quoted on the stock exchange and their price depends largely on how their interest rate compares relative to the returns offered by alternative fixed-interest assets available at the time they’re bought and sold. Investors may experience liquidity issues when they come to sell their holdings.

Interest payments are generally made every six months but are not guaranteed. If a building society doesn’t have sufficient capital to make payments, it will not make those payments and is not obliged to carry forward any obligation to pay them in future.
What are the risks of investing?

There are many risks associated with investing. The information below provides general details of the main types of investment risk that you could be exposed to by investing in the funds and exchange-traded assets available through accounts in your Zurich Portfolio. For detailed information about asset specific risks, you should speak to your adviser and read the information provided by the fund manager or asset provider.

Zurich is responsible for giving you access to clear information about the types of investment available to you and the risks you should consider. Your adviser is responsible for explaining what assets are, how they work, and the specific risks associated with them – they will help you to choose the assets that suit your investment objectives and attitude to investment risk. You are responsible for making sure that you are satisfied you understand the assets you are considering investing in, including the associated risks, so you can make an informed investment decision.

Risk factors
Whatever you invest in, you could lose some or all of your money – nothing is guaranteed. You should understand the risk of each asset you’re considering investing in before you invest in it.

Investment funds and exchange-traded assets share many risks – however, the level of risk will vary considerably between different funds and different exchange-traded assets.

The risks associated with investment funds will depend on the assets in which those funds invest. These risks can be found in the Key Investor Information Documents, Supplementary Information Documents or scheme prospectus, that are available from your adviser.

Some exchange-traded assets can be high risk and rely on complex financial instruments that may not be suitable for retail investors. This applies particularly to assets that rely on the performance of derivatives, such as hedge funds and some types of exchange-traded funds. As such, you should make sure that you understand all the risks involved before you invest.

The following generic risks are in alphabetical order.

Charges taken from capital
Fund manager charges vary widely between fund managers and the funds they operate. Some fund managers will take their charges directly from the fund’s capital rather than from the investment income its underlying assets generate. This results in higher income but lower capital growth and there is a risk of capital erosion.

Concentrated asset portfolio
This will include funds that specialise in a specific market. For example, this might be a particular sector such as technology, or a geographical region such as the far east. It may also include those funds that limit their investment portfolio to a particular asset class. Such funds are likely to carry more risk than funds that spread their investments across a wider range of assets and asset classes.

Counterparty
This is a form of risk that mainly affects derivatives and assets or funds that invest in derivatives, for example, hedge funds. Derivative returns are dependent on counterparties honouring their financial obligations. In the event that a counterparty defaults on its obligations, the derivative may be worthless unless the counterparty has purchased security specifically to offset this risk.

Credit/Debt
The returns on debt securities, for example, certain types of money market instruments, such as commercial paper, as well as company bonds and government bonds (gilts), all depend on the continuing ability of the issuing company or government to service the interest payments and repay the loan at maturity. The level of credit risk depends on the likelihood of the company or government that issued the bond defaulting on its financial obligations. The credit risk of individual companies and governments is measured by agencies such as Standard & Poor, Moody’s and Fitch.
Dilution levy/adjustment
When fund managers buy and sell assets in a fund, associated dealing costs (such as stockbroker fees and taxes) are normally taken from the fund. These costs are reflected in the share price and the performance of the fund, so they are borne equally among investors.

However, if investors (individually or collectively) are buying or selling significant numbers of shares, relative to the size of the fund, the resulting dealing costs may adversely affect existing investors. This is called ‘dilution’. The fund manager may offset the effects of dilution so that investors who are not buying or selling at these times are treated fairly. A fund manager may do this by either:

- applying a dilution levy, deducted from the value of transactions made by investors who are buying or selling at these times. The levy is paid into the fund and is used to cover the associated dealing costs, or
- making a ‘dilution adjustment’ by adjusting the share price to take account of the dealing costs so that only those investors buying and selling on that day are affected.

Emerging markets
Assets, such as bonds, that are located in, or funds that invest in less developed markets are at higher risk from political and economic instability that may lead to increased price and currency volatility.

Equity
The value of shares and the risks associated with them depend on many factors. As well as the underlying performance of the individual company, share prices will be affected by market expectations of risks and opportunities relating to the market sector, particular industry, the wider economy as well as any other outside factor that might influence a company’s performance, for example, unexpected events such as natural disasters.

Shares that have a full market listing are generally considered less risky as they tend to be larger more established companies – sometimes known as ‘blue chip’ companies. Shares that are listed on specialist markets such as AIM tend to be riskier because they are small and growing companies that have yet to establish themselves. In addition, these companies are not required to report the same level of financial data so it is more difficult to assess their financial status.

Exchange rate
This risk results from the changes in the relative price of one currency against another – it affects assets that are valued in, or have a value derived from assets priced in a currency other than pounds sterling. For example, an exchange-traded fund may be denominated in sterling but invest in assets denominated in euro. The rate of exchange between sterling and every other currency is constantly changing and the level of exchange rate risk is determined by the speed and extent of those changes. Typically, if an asset has a stable price in euro but the value of sterling increases relative to the euro, it will cause the relative sterling denominated value to fall.

High-yield bonds
Companies and governments issue bonds to raise money, the interest rate they have to pay will depend on their credit rating, the lower their credit rating the higher the interest rate or ‘yield’. As such, funds that invest in high-yield bonds are exposed to more credit risk and are at greater risk of financial loss from the issuer of the bond defaulting on its financial commitments.

Inflation
This generally applies to funds and other assets that provide steady but low levels of growth or income and reflects the probability that the value of the asset or income will be reduced as inflation shrinks its relative value. The higher the level of inflation, the quicker the relative value (or put another way, the purchasing power) of the asset, or income produced by the asset, will reduce.

Interest rate
This affects money market instruments and fixed-rate assets such as bonds and preference shares where the trading value is affected by changes in interest rates. Typically, the trading value of a bond will fall when interest rates rise and rise when interest rates fall. It will also affect derivatives. For example, if a counterparty invests in a derivative in expectation of future increases in interest rates that then actually fall, they will lose money which in turn will affect the value of your investment.

Leverage/Gearing
This risk arises whenever an asset manager borrows money from a financial institution, using existing assets as collateral, and uses it to invest in more assets. Although this increases the potential for larger gains, it also increases the risks of very significant losses. Leveraged derivatives can also be much more volatile, because small changes in the value of the underlying assets will have a disproportionately large affect on the price of the derivative.
**What are the risks of investing? (continued)**

**Liquidity**  
This risk relates to occasions when it may not be possible to buy or sell an asset at the time, or in the quantities required, because market conditions prevent the buying or selling of that asset. This is particularly relevant to shares in small companies and property-based assets. In addition, it will not be possible to buy or sell if trading on an exchange, or trading in a particular fund or share, has been suspended – this may be due to excessive market volatility, which may automatically trigger a suspension in trading or an event specific to the fund or share.

Trading in assets in less developed markets can also be subject to liquidity restrictions.

**Political**  
Financial markets operate in a regulated environment. As such, particularly in less developed countries, governments or regulators can change the rules which then affect the value of assets based in those countries. Examples of this are occasions where economic sanctions are applied or if a government nationalizes a company or industry.

**Property**  
Property funds are normally valued by taking account of the views of an independent valuer, property market conditions and the value of recent property sales. At times the value of such funds can fall sharply and the costs for buying and selling can rise sharply. In addition, there may be restrictions on selling holdings in such funds (whether they hold property directly or property company shares), particularly if property needs to be sold first. This may prevent the sale of assets for up to a year, or possibly longer. Property funds may invest directly in residential, commercial and international property or indirectly through investments in property companies that own and manage property on a commercial basis.

**Small companies**  
Shares in small companies and funds that primarily invest in small companies, may experience greater levels of price volatility than those of larger, more established companies or the funds that invest in them.

In addition, shares in small companies, and penny shares in particular, may have a significant difference between the buying and selling prices and maybe difficult to buy and sell without significantly affecting the price. Essentially, this means that to make an overall gain, the share price must rise significantly to offset the relatively high costs of selling the asset.

**Stabilisation**  
During and after a public share issue, the price of the shares may be artificially maintained to prevent the price dropping before buyers can be found. Stabilisation rules permit the price to be fixed for a limited period and require the disclosure that the price may be stabilised. The effect of this may be that the price is initially higher than it would otherwise have been.

**Tax**  
There is a risk that changes to the tax regime in the UK, or in the country in which the underlying assets are situated, will result in higher taxation on your asset holdings. You should take great care to understand how the assets you are considering investing in will be taxed. This is particularly so with exchange-traded funds or hedge funds which may invest in complex derivatives.

**Time limited assets**  
These are assets, such as covered warrants, that confer a right to buy or sell an underlying asset on a specified date or within a specified timeframe. If the option is not exercised, the holder will lose the right to exercise it and the asset will become worthless. There may also be additional transaction costs.

**Tracking**  
This relates particularly to exchange-traded funds that may use derivative contracts to replicate, as closely as possible, the performance of the market index that they track. Factors such as delays in receiving investment income and investment fees and the extent to which they exactly replicate the index they are tracking, means that over the long term there is a risk that they will under-perform the indices they track. This is known as tracking-error.

**Volatility**  
The measure of how much an asset price changes over a given period of time. More volatile assets will have larger changes in price over shorter periods of time. This risk is generally associated with certain types of individual assets, particularly shares, which tend to be relatively volatile because their price and the dividend payments they generate can be very sensitive to external risk factors, for example natural disasters, as well as the underlying performance of the company itself. The risks associated with volatility can be reduced by holding a range of assets with a view to long term investment enabling you to ride out periods of volatility and to give flexibility as to when to sell. Excessive volatility, in particular when markets experience very sharp falls in value in a very short time, may automatically trigger a suspension in trading.
Glossary of common investment terms

- **Actively managed funds**
  Fund managers actively seek to influence the performance of these funds and manage the underlying assets in line with their fund’s objectives.

- **Alternative investment market (AIM)**
  The London Stock Exchange’s global market for small and expanding companies.

- **Derivatives**
  Some of the assets available to you may invest in derivatives, this is a general term used to describe securities where the value of the security is based on the value of underlying asset such as company shares, commodities or bonds. Examples of derivatives include warrants, options and futures.
  Assets such as hedge funds, exchange-traded funds and exchange-traded commodities may invest in derivatives.
  The advantage of derivatives is that they can provide investment exposure to the performance of an asset without having to buy the asset. In addition, they give the potential for higher investment returns on smaller investments, because they provide leverage (also known as gearing). However, these potential benefits come at the cost of an increased risk of larger losses.
  Derivative values may be dependent on the value of underlying assets or the ability of a counterparty to the derivative fulfilling their financial obligations (counterparty risk). In general, derivatives are high-risk investments that aren’t suitable for retail investors.

- **Commercial paper**
  These are tradeable short-term (less than one year) unsecured money market instruments. They are issued by large corporations to raise cash; they pay a fixed rate of interest and promise to pay the holder the face value on maturity.

- **Complex investments**
  These assets are unlikely to be suitable for retail investors – they are difficult to understand and may expose investors to a level of risk above the value of the asset. Such assets are usually used by professional investors, such as investment advisers, to support large and sophisticated investment strategies. These assets may invest in foreign markets or currency or they may use complicated and potentially risky derivatives and highly leveraged financial instruments to try and achieve large gains based on assumptions about future asset price movements.
  Complex investments generally include securities that rely on derivatives or are time limited. Examples include; covered warrants, futures, options and shares in non-FCA recognised funds.

- **Floating-rate notes (FRNs)**
  There are several types of FRNs, but generally they are tradeable money market instruments that pay a variable rate of interest that tracks an index (such as LIBOR – London Interbank Offered rate). They are unsecured securities issued by banks and may be leveraged.

- **Futures/Forwards**
  An agreement to buy or sell underlying assets, for example, commodities or shares for a specified price on a specified day in the future.

- **Gilts**
  Government issued bonds.

- **Hedge funds**
  Funds that attempt to reduce investment risk by investing in different asset classes that aim to offset the risks associated with other assets they hold. For example, by combining holdings in company shares with derivatives that can offset falls in the share prices. They use a high levels of leverage and securitised derivatives to maximise potential returns, but in doing so take on much higher levels of risk.

- **Mutual funds**
  Authorised open-ended investment accounts and unit trusts that allow private investors to pool their money and collectively invest in a wider range of assets than would otherwise be possible.

- **Option**
  An agreement that gives the right, but not the obligation, to buy (call option) or sell (put option) an underlying asset, for example bonds or company shares, at a specified price at a date in the future within a specified period. If the option is not taken exercised by the expiry date, it will become worthless.

- **Passively managed funds**
  Funds which invest in assets with the objective of performing in line with an index or asset class benchmark.

- **Penny shares**
  These are shares in smaller companies and generally trade for less than £1 per share. The low price doesn’t mean they always represent good value and share prices tend to be volatile. The share price would need to rise significantly to show any investment gain after trading costs are taken into account.

- **Rights issues**
  These are additional shares that a company will make available to existing shareholders to raise cash. For example, to pay for investment in the business. These are generally offered at a discount to the market price at the time.

- **Security/securities**
  A general term used to describe an asset or assets.

- **Spot Price**
  The current price of an asset for immediate settlement or delivery.

- **Tracker funds**
  Funds that aim to mirror the asset composition and performance of a specified index.