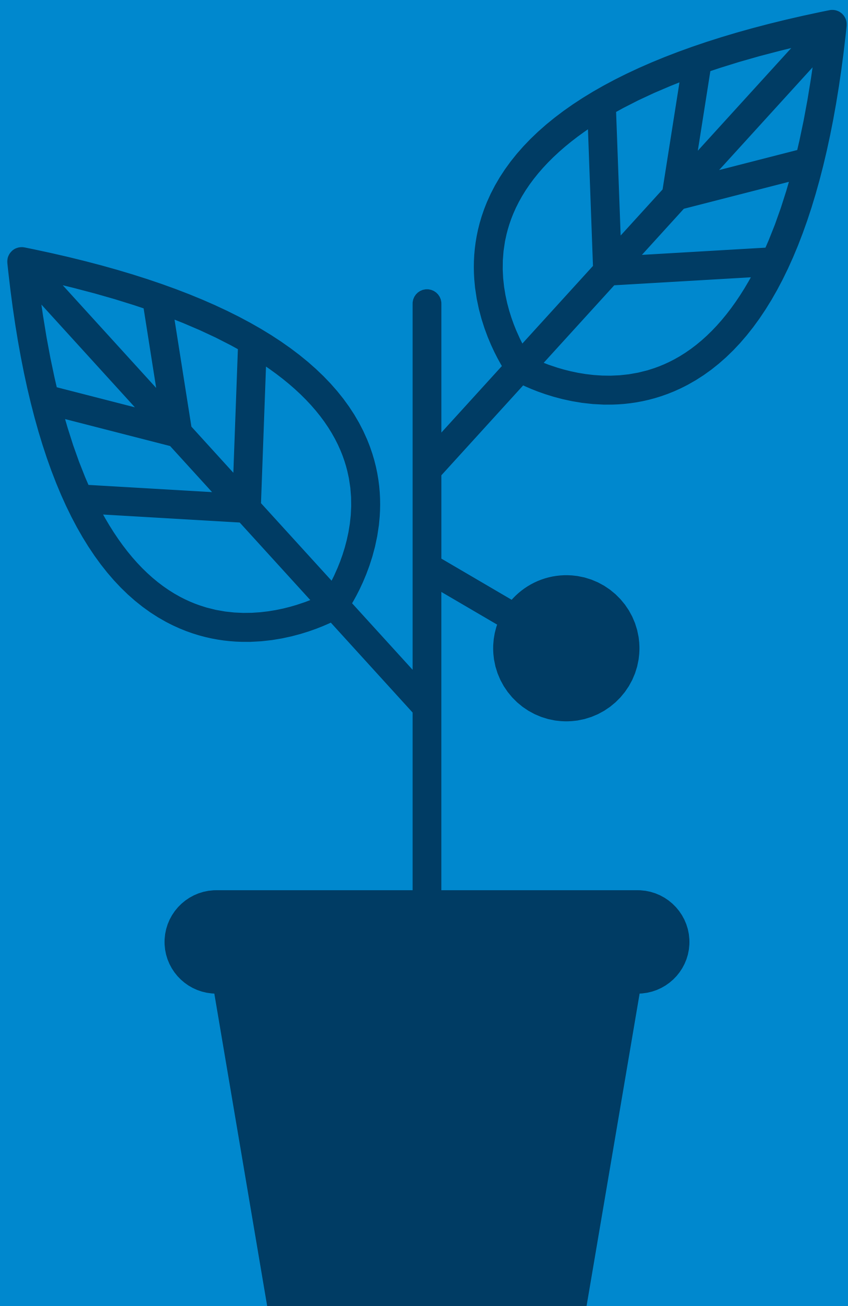
Friends Provident International
فريندز بروفيدنت انترناشيونال

A beginner’s guide to investing

Make your money work harder



A beginner's guide to investing

Make your money work harder

Two out of three expatriates say they save more money in the United Arab Emirates (UAE) than in their home country, and that a period in the UAE can build the foundations for the rest of their lives.[1]

The UAE is ranked fifth globally for work opportunities, as well as higher tax free incomes. We recognise that as an expatriate you are working hard for your money, but is your money working hard for you?

Whether your long term financial goals include retirement, education funding, purchasing a property or something else, investing wisely can be a way of achieving your long term financial goals sooner.

Our beginner's guide to investing aims to equip you with the knowledge to get you started, including:

1. Why invest?
2. Types of investment
3. How to invest in funds
4. Plan your investments
5. Your investment portfolio
6. Investing with Friends Provident International

> "An investment in knowledge pays the best interest."
>
> Benjamin Franklin

[1] HSBC Expat Explorer 2017

1 Why invest?

Will your savings be enough to achieve your long-term financial goals?

When you save money you generally pay it in to a bank account and in return receive interest. While bank accounts provide a safe and secure haven for cash, the interest is typically low and therefore when saving for long-term goals the end return on your savings could be minimal.

Furthermore if you factor in the rising cost of living; housing, food, taxes and services, known as inflation this will not only impact the amount you are able to put away into savings on a regular basis in the short-term but also the cost of your long-term goals.

The impact of inflation on costs

Assuming an inflation rate of 5% per year

	2008	2018	2028
Weekly shopping Impact on the amount you save on a regular basis (1 ltr milk)	$1	$1·63	$2·65
Property Impact on the cost of property purchase	$150k	$244k	$397k

Save

A proportion of income not spent on everyday living expenses. Used for large purchases in the near future such as car, wedding, property or emergencies and contingencies.

- Short-term
- Low risk
- Low return
- Easy access to funds

Invest

Putting money into financial products with a view to earning profits. Used for large purchases in the long-term future such as retirement or children's education.

- Long-term
- Potentially higher risk
- Potentially higher return
- Access to certain funds may be restricted (for example property)

When to start investing

You may be fortunate enough to have a lump sum of money ready to invest. However, if not, you could use your bank account to build a pot of cash. Another option is to drip feed into an investment with regular payments.

Before investing you should:

✓ Ensure you have enough savings to cover emergencies and contingencies

✓ Make sure you have at least six months expenses covered should your circumstances change (for example you lose your job)

✓ Insure yourself should you become unable to work (for example you suffer a serious illness)

2 Types of investment

Once you have your expenses and contingencies covered and have decided to invest it is good to have an understanding of the different types of investment, known as asset classes, of which there are four main types.

Asset classes explained

Cash

Cash in a bank account or other money market securities that earn interest over time. This is normally considered to be a safe haven during periods of investment market volatility, or for short term needs. However, the real value of the investment may be eroded over time by the effects of inflation.

Short-term investors (up to three years)

Bonds (Fixed interest)

A loan or bond issued by a company or government over a set period of time in return for a fixed interest rate as well as the return of the original capital. Different types of bond have different levels of risk. These have a better return than cash in the long run. Generally they are considered lower risk than shares.

Short-term to medium-term investors (three to five years)

Property

Property over time generally appreciates in value. As well as purchasing a property to live in you can also consider purchasing for rental. The rental income then goes directly to your pocket and you are in control of the investment which includes finding a tenant and ensuring the rent is covered.

Medium to long-term investors (five years plus)

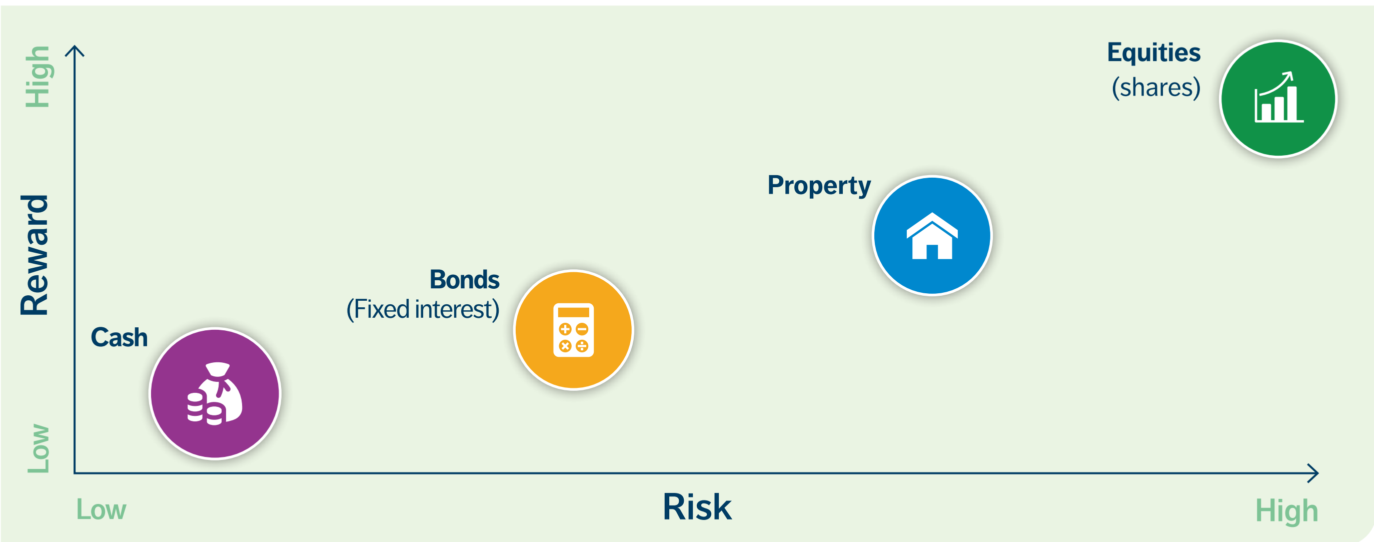
Equities (Shares)

Equities (Shares) are issued by a company to raise money to develop the business. Investors buy shares, which can be traded on stock markets. Considered to be one of the best investments to achieve long-term returns, however shares can be volatile in the short-term, meaning their value is likely to fluctuate.

Medium to long-term investors (five years plus)

The risk reward trade off

Each asset class comes with a different level of reward and risk. Generally, the higher the return opportunity the greater the risk. This is shown in the image below.

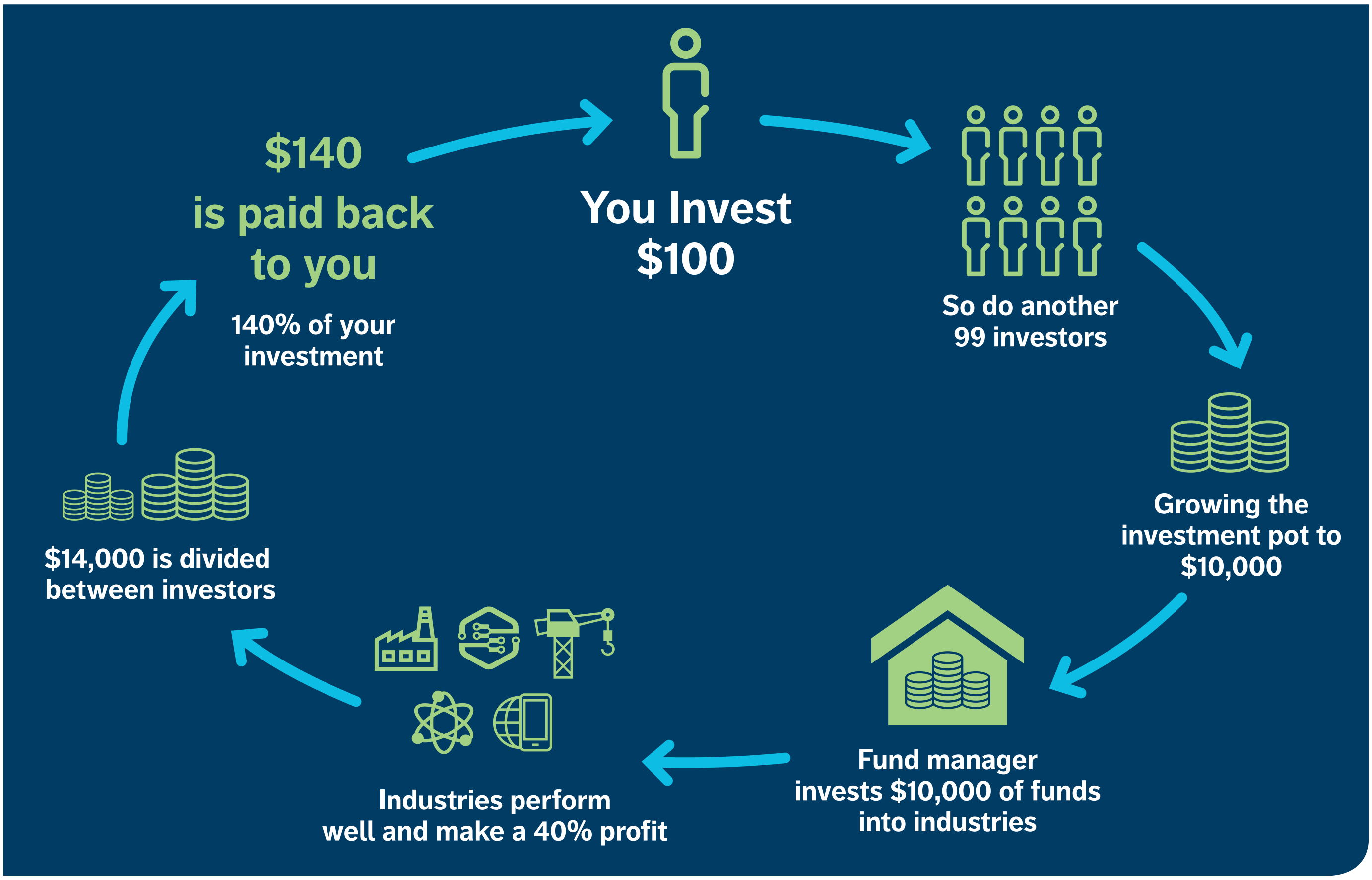


3 How to invest in funds

A good way to start investing is through an expert fund manager.

There are a wide range of funds available from various fund management companies. Often known as 'Mutual' funds, these Investment funds 'pool' together the money of individual investors and in return investors receive units, each representing an equal share of the fund. The fund managers administer the funds with the aim of increasing the value of the money invested over time. A major benefit of investment funds is that you reduce the risk of holding just a few individual shares or bonds. Instead your returns are determined by a much wider range of investment opportunities.

Fund management explained



It is worth noting that fund prices can go up and down depending on the underlying investment, and that the value of your investment cannot be guaranteed. However investing wisely through a fund manager can reduce these risks and bring many benefits.

The benefits of funds

- ✓ Knowledge of a professional investment fund manager
- ✓ Options to invest in a wide range of opportunities, all within one fund
- ✓ Funds are tightly controlled and monitored by legislation
- ✓ Sharing the cost of the fund with other investors to make investing more affordable
- ✓ Higher potential returns than a bank account, for example

4 Plan your investments

Once you are ready to invest it is recommended that you speak with your financial adviser who can offer you guidance based on your individual circumstances. At this stage it's a good idea to ask yourself the following questions, so you can gauge which types of investment will be suitable for you.

1 What are your financial goals?

For example, do your large future financial goals include retirement and/or your children's university education? Make a list to help you visualise them.

2 How much money do you need to achieve your financial goals?

Do your research around the cost of your financial goals.

Check need calculator

3 How much can you afford to invest?

Ensure your plan is achievable, how much you need for your financial goal and how much you can afford to invest can be different.

Check affordability calculator

4 When will you need to pay for your goals?

How far away are your financial goals? Is it 10 years away or 20? Knowing your time frame will give you an idea of:

- The amount of inflation you need to factor in
- The cost of your goals in the future

Check inflation calculator

5 How much risk are you prepared to take?

Before investing it is important to understand your attitude to risk and the potential for a good return should be balanced against the fact that you may not get all or even any of your money back.

Check attitude to risk calculator

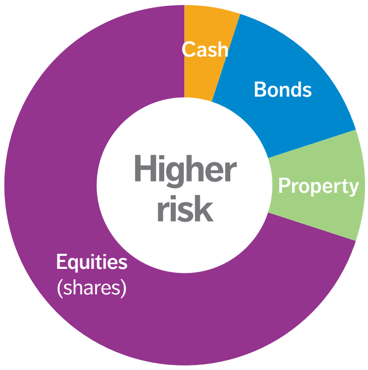
Your financial adviser will make recommendations for your investment portfolio based on your answers to the above.

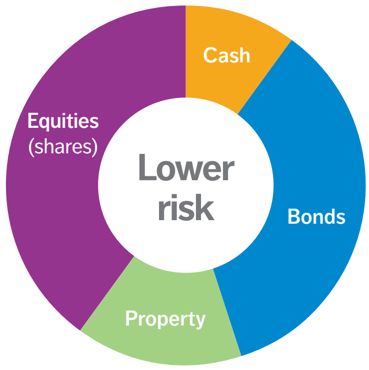
5 Your investment portfolio

Building your portfolio at the outset is not the end solution as what is the right investment mix for you today could change in the future, depending on market conditions and lifestyle changes.

Build your portfolio

Industries and their respective asset classes respond differently to market conditions and changes. By including exposure to multiple asset classes and industries your investment manager can reduce the risk to your investment should an industry suffer a shortfall. This is known as **diversification**.





You should also consider:

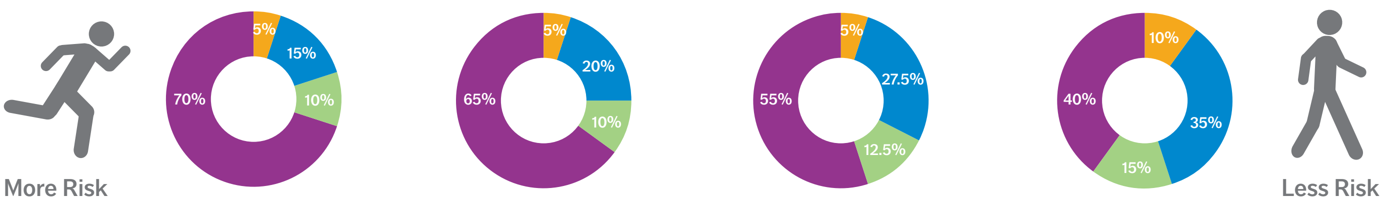
Market timing – It can be very difficult to predict market direction and movements and get the exact timing of when to invest just right. This is because markets rise and fall in unanticipated spurts, making it easy to mistime and potentially lose out on the gains when market sentiment recovers.

Benefits of regular saving – Market rises and falls are part of life, but by saving a fixed amount on a regular basis you have a method to 'smooth out' market volatility and benefit over the long-term.

Review your portfolio

It is likely that the balance of investments in your portfolio will need to slowly evolve not only in line with market conditions but also with factors such as your personal circumstances and most notably your age. The level of risk you are prepared to take, along with your investment and income needs, are likely to change throughout the different stages of your life each requiring a different balance within your portfolio.

Equities (shares)
Cash
Bonds
Property



20s

Consider being aggressive with your investment approach. You have time on your side to weather stock market fluctuations.

Late 30s to early 40s

A growth and income approach that still favours stocks over bonds may help balance retirement planning and other more immediate financial obligations such as a child's post-secondary education.

Mid 50s

Seek to reduce risk in your portfolio as you approach retirement. There is typically less time to recover market losses.

Late 60s and beyond

Allocating more to bonds makes sense, but maintaining some stock market exposure may be necessary to keep pace with inflation in today's low interest rate enviroment.

Manage your portfolio

Ensure your portfolio best reflects your situation and regularly review it with your financial adviser.

Switching

You are able to switch from one fund to another or redirect future contributions into different funds at any time.

6 Investing with Friends Provident International

Friends Provident International provides access to funds from some of the World's leading fund management companies with the following benefits:

- ✓ **Funds available in a number of currencies**
- ✓ **A broad range of funds covering all major asset classes**
- ✓ **Award winning investment products accessing funds as well as stocks and shares**
- ✓ **An investment solution for every type of investor**
- ✓ **Manage your portfolio online 24/7 by switching current funds and redirecting future premiums**
- ✓ **Monthly fund price and performance updates**

How to get started

01 Visit **www.fpinternational.ae/invest** to find out more about investing

02 Speak with your financial adviser to learn more about which investments are best suited for your circumstances

03 If you do not have a financial adviser a list of our distribution partners can be found at **www.fpinternational.ae/about-us/our-key-distribution-partners.jsp**

This document is for information only. It does not constitute advice or an offer to provide any product or service by Friends Provident International.

Please seek professional advice, taking into account your personal circumstances, before making investment decisions. We cannot accept liability for loss of any kind incurred as a result of reliance on the information or opinions provided in this document.

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