MyFolio Managed Funds

Standard Life

There's a lot to look forward to

Contents

Whatever your investment goals

We're here to help you meet them

At Standard Life we offer a number of investments designed to meet a wide range of goals. After all, everybody's different. Some people are quite conservative. Others are happy to take a more adventurous approach to investing. It's all about finding the right balance between risk and reward.

It's reassuring to know that once you've decided on your investment aims and approach, Standard Life has the expertise and experience to help you.

Making your investment choice simpler

MyFolio Managed Funds can make your investment choices easier. The three main things you need to consider are:

1. Your investment goals

To put it another way, what are you investing for? Be specific. Which leads us to...

2. How long you want to invest for

Are you saving short-to-medium term for a special family event or big life purchase? Or longer-term, say, for retirement?

3. Your attitude to risk

Last, but far from least, comes the crucial matter of risk. Crucial because working out your attitude towards risk helps determine the MyFolio Managed Fund that may be right for you.

Choosing the right investment

The world's economy can be challenging at times. Uncertainty over the economy, job security and the direction of financial markets make it difficult to know how best to invest for the future.

In other words, while investing for your future is always a good idea there's not always one 'right way' to invest. It really does come down to what you're investing for, how long you want to invest for and your attitude to risk.

One way to spread the risk is to broaden the type of things you invest in and where they are located.

Why spreading the risk makes sense

A golden rule of investing money is diversification - or spreading the risk. And when you think about it, it's just common sense.

Example:

Putting all of the money you have to invest in just one company's shares is a really high-risk strategy. If that company does well, you'll reap the rewards. But obviously there's a flipside. If the company doesn't perform well or gets into difficulty, you could lose a lot - if not all - of your money. This is where spreading your money across different investments - called asset classes - and regions can help.

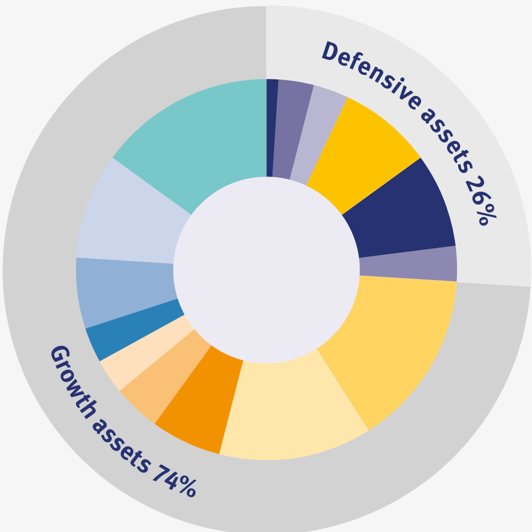
Different asset classes and regions respond differently to changes in economic conditions. Some go up in value while some go down at the same time. So, in effect, spreading your money across asset classes and regions can help to smooth out the highs and lows of investment returns over time.

Be aware though, even a well-diversified portfolio can still fall in value.

The chart below shows an example of the different types of investments you could expect to find in a level III risk profile MyFolio Managed Fund.

This pie chart shows the current target asset mix for a level III risk profile (as at October 2016). Not all the assets shown will appear in every MyFolio Managed Fund. The mix of assets and their proportions will vary depending on the risk level and style of MyFolio Managed Fund selected. Asset mixes are reviewed regularly and may change from time to time. To see the most up-to-date asset mix for each MyFolio Managed Fund, download the latest fund factsheet at www.standardlife.co.uk/funds

An example of an asset mix - Source: Standard Life Investments



Defensive assets
- Cash and Money Markets (1%)
- Global Index Linked Bonds (3%)
- Short Dated Global Index Linked Bonds (3%)
- Sterling Corporate Bonds (8.2%)
- Short Dated Sterling Corporate Bonds (8.2%)
- Absolute Returns Bonds (2.6%)

Growth assets
- UK Equities (14.7%)
- US Equities (13.4%)
- European Equities (5.7%)
- Japanese Equities (4.2%)
- Asia Pacific Equities (3.4%)
- Emerging Market Equities (3.4%)
- Sterling Hedged Global High Yield Bonds (5.8%)
- UK Property (8.6%)
- Absolute Returns (14.8%)

How MyFolio Managed Funds can help

Diversification built in

All of the MyFolio Managed Funds include a diversified range of investments to help you spread your risk easily.

Balancing risk and reward

Each MyFolio Managed Fund is designed to closely match a different attitude to risk:

MyFolio I (Lower risk)

This investment option is designed for customers who are conservative with their investments. They prefer taking a small amount of risk to achieve modest or relatively stable returns. They accept there may be some short term periods of fluctuation in value.

MyFolio II (Lower – medium risk)

This investment option is designed for customers who are relatively cautious with their investments. They want to try to achieve a reasonable return, and are prepared to accept some risk in doing so. Typically these portfolios will exhibit relatively modest yet frequent fluctuations in value.

MyFolio III (Medium risk)

This investment option is designed for customers with a balanced attitude to risk. They don't seek risky investments but don't avoid them either. They are prepared to accept fluctuations in the value of their investments to try and achieve better long term returns. Their investments may be subject to frequent and at times significant fluctuations in value.

MyFolio IV (Medium – higher risk)

This investment option is designed for customers who are relatively comfortable with investment risk. They aim for higher long term returns and understand that this can also mean some sustained periods of poorer performance. They are prepared to accept significant fluctuations in value to try and achieve better long term returns.

MyFolio V (Higher risk)

This investment option is designed for customers who are very comfortable with investment risk. They aim for high long term investment returns and do not overly worry about periods of poorer performance in the short to medium term. Ordinarily these portfolios can be subject to the full extent and frequency of stock market fluctuations.

MyFolio Managed Funds are designed to make getting the right balance between risk and reward that little bit easier. That's mainly because they offer you access to a wide range of different risk levels.

Please note though, the value of a MyFolio Managed Fund can fall as well as rise. Even the lowest risk fund can still fall in value.

When you select the risk level that's right for you, you should be aware that the fund will always be managed to meet that level of risk. So, the proportion in different asset classes (for example equities or bonds) within the fund won't change significantly as market conditions change.

Managed, reviewed and rebalanced for you

The different asset classes in the funds will all perform differently. So, the team of investment experts at Standard Life Investments regularly review the proportion of each asset class held in the funds. If appropriate, the funds may be rebalanced. This means that they change the proportion of each asset class to make sure the funds stay in line with their original risk level.

Choice of risk level if your circumstances change

As there are five different levels of risk to choose from, if your attitude towards risk and reward or your goals change, you can simply switch to another MyFolio Managed Fund that offers a higher or lower risk level.

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MyFolio Managed Funds 'at a glance'

- Diverse range of asset classes in each fund, including equities, bonds and property, helping to spread the risk
- Designed to fit with your risk profile – choose from five different risk levels, from lower to higher
- Monitored, reviewed and rebalanced
- Backed by the long-standing investment experience and expertise of Standard Life Investments

For information on how you can invest in a MyFolio Managed Fund, please contact us on 0345 60 60 191.

Call charges may be monitored/and or recorded to protect both you and us and help with our training. Call charges will vary.

Copies of the latest MyFolio Managed Fund factsheets are available at www.standardlife.co.uk. Alternatively, call us on the number above and we'll send you a copy.

Important information

Additional information we think you should be aware of

As with all investments, there are risks associated with investing in the MyFolio Managed Funds. They are shown below. Please do take the time to read these risks; it is important you understand them. Some of the risks may use terminology you may not be familiar with. If this is the case, please ask your adviser to explain it to you.

As all the MyFolio Managed Funds are multi-asset investments the relevance of these specific risks will depend on the specific MyFolio Managed Fund and associated risk level chosen.

Flexible income (drawdown) risk

If investment markets fall while you're taking a flexible income from your pension (either a regular income or ad-hoc withdrawals), the impact of these withdrawals could be greater and lead to your pension savings running out faster. It's important to review your investments regularly.

General risks

The value of a fund can go down as well as up, and is not guaranteed. You may receive back less than the amount originally invested.

Past performance is not a guide to the future.

A fund can invest in collective investment schemes which can themselves invest in a diverse range of other assets. The fund may not have any control over the activities of any collective investment scheme invested in by the fund. These underlying assets may vary from time to time but each category of asset (which may include equities, bonds or immovable property) has individual risks associated with it. If the value of a fund falls significantly, it may not be possible to maintain the same diversification of risk as the fund may hold a narrower range of assets.

Risk factors

1. **Market risk** is the risk that market conditions can negatively impact investment returns. For instance, the prices of securities are dependent on general supply and demand that fluctuates independently of any security in particular. Market risk is generally dependent on economic conditions, such as inflation, consumer sentiment, or credit availability.
2. **Emerging markets** tend to be more volatile than more established stock markets and therefore your investment may be subject to greater risk. Political and economic conditions should also be taken into account.

   The reliability of trading and settlement systems in some emerging markets may not be equal to that available in more developed markets, which may result in delays in realising investments within the funds.
3. **Currency risk** means investments may be made in assets denominated in various currencies, and movements in exchange rates may have a separate effect on the value of and the returns from such investments.
4. **Financial risk or default/credit risk** is the risk that a business will not be able to make payments due to its debt load. Interest and principal must be paid on borrowed money – failure to make payments can force the business into bankruptcy. A business with large amounts of debt relative to income does not have much reserve for unexpected expenses or lower income, and can fail if the economy sours or if it encounters some other factor that lowers income or increases expenses.

   Funds investing in corporate bonds are therefore subject to default on the interest owed and/or the ability of the bond issuer to return capital on the redemption date.

   The risk of this happening is usually higher with bonds classified as 'sub-investment grade'. These may produce a higher level of income but at a higher risk than investments in 'investment grade' bonds. In turn, this may have an adverse impact on funds that invest in such bonds.

   The yields offered by funds investing in fixed interest securities reflect, in part, the risk rating of the issuers of these securities.

5. **Interest rate risk** is a risk that lowers yields or returns due to changes in the prevailing interest rate. Interest rate risk can affect different securities in different ways. The price of bonds in the secondary market, for instance, varies inversely to interest rates i.e. when interest rates rise, the price of bonds drops, and vice versa.
6. **Inflation risk** is a risk that lessens real returns due to the decreasing purchasing power of the returns.
7. **Liquidity risk** is the risk that an investment cannot be sold quickly for a reasonable price. Real estate or property, for instance, is an illiquid investment because it can take considerable time to sell unless it is sold below market value. Other markets can also be less liquid and therefore can be more volatile, such as smaller companies securities or emerging markets.
8. **Property risk** occurs as the valuation of property is a matter of judgment by an independent valuer. The value of capital and income will fluctuate as property values and rental incomes rise and fall.

   Where investment in property is made, either directly or indirectly, it should be noted that due to the nature of these assets, significant volatility may be experienced during times of extreme market turmoil.

   The underlying investments of property funds can generally be less liquid than equities or bonds and, as such, purchases and sales may be a long and uncertain process. At times, cash may remain uninvested if it proves difficult to make purchases. Equally, there may be times when property has to be sold quickly and for less than expected.
9. **Business risk** is any risk that can lower a business's net assets or net income that could, in turn, lower the return of any security based on it. Some business risks are sector risks that can affect every company in a particular sector, while some business risks affect only a particular company. Higher mortgage rates can increase the business risk for real estate or construction companies, for instance. However, even similar businesses can have widely different risks depending on the quality of management and the resources that are available to the business.
10. **Event risk** is the risk of an event that can have an impact on the potential return of an investment. Generally, event risk is risk that affects a single company and its securities, such as the loss of a major lawsuit or an accounting scandal. Sometimes event risk can affect a number of securities, such as the political risk that a country will do something that will drive down the prices of any securities issued by companies located there, such as increasing taxes, discouraging foreign investment, or in extreme cases, nationalising the companies without proper compensation.
11. **Tax risk** is the risk that a taxing authority will change tax laws which could have a negative impact on investment. Higher taxes on investment income reduce real returns and can lower the prices of investments in the secondary markets. Higher taxes on businesses will lower their net income, which will usually lower the stock price, and may lower its bond prices in the secondary market if their credit rating is lower as a result of the lower income.

Absolute return risks

All of the MyFolio Managed Funds may invest in absolute return funds.

It is important when considering absolute return funds or absolute return investing not to confuse this with guaranteed funds or products which guarantee a positive nominal return over any period.

1. Intangible risks and volatility

The risks of a fund can be measured in different ways. Volatility (a measure of how much a fund's price has varied in the past) will not necessarily always provide a complete picture of a fund's risk. Some risks are not represented in the movement of the unit price until they emerge and only then will they have a significant effect on a portfolio.

Absolute return funds can invest in a wide variety of investment strategies and assets. Below we document the specific heightened risks applicable to these types of funds rather than an exhaustive list of risks for potential strategies or asset classes.

2. Extensive use of derivatives

In order to achieve its objectives an absolute return fund utilises a combination of traditional investments (such as equities, bonds and foreign exchange) and advanced techniques where it can use derivatives extensively. Derivatives are financial instruments which derive their value from an underlying asset, such as a share or bond, and are used routinely in global financial markets. Used carefully, derivatives offer an effective and cost-efficient way of investing in markets. However, derivatives can lead to increased volatility of returns in a fund, thus requiring a robust and extensive risk management process. While the fund will not borrow cash for investment purposes, the total value of exposures to markets will routinely exceed the fund's net asset value. Derivatives may be Exchange Traded or Over the Counter (OTC).

3. Use of 'short' positions

Typically, UK authorised collective investment schemes invest on a 'long only' basis. The fund, by employing certain derivative techniques, will establish both 'long' and 'short' positions in individual markets and sectors. Investing on a 'long' basis means that the value of the derivative will rise or fall in the same direction as the underlying market value of the asset from which it is derived. If investments are made on a 'short' basis the value of the derivative will rise and fall in the opposite direction to the underlying market value of the asset from which it is derived.

4. Counterparty risk

The Investment Manager may use one or more separate counterparties to undertake derivative transactions on behalf of the fund. From time to time the fund may be required to pledge collateral, and when this is required it will be paid from within the assets of the fund. When a derivatives contract moves in favour of the fund there is a risk that the counterparty may wholly or partially fail to honour their contractual obligations under the arrangement. The Investment Manager assesses the creditworthiness of counterparties as part of the risk management process and will ordinarily hold collateral to mitigate this.

5. Active fund management

The majority of risks within traditional investment funds are driven by the type of investments held (i.e. equities, fixed interest or property, etc). The risks that fund management decisions add are generally of a smaller magnitude than those of the asset types themselves. Funds which employ an absolute return strategy may not have a structure where most of the returns are generated from traditional asset types. Rather, they may derive most of their returns from very specific strategies. As a result of this, the risks of the fund are driven primarily by these fund management decisions, and less by the characteristics of the underlying traditional asset types.

6. Correlation

The fund will invest in a diverse set of investment strategies, which in the opinion of the investment adviser have attractive risk reward characteristics. While the breadth of the strategies is significant, should they start to exhibit closer correlation ie move in the same direction as one another, the fund may be subject to a higher level of risk and volatility than anticipated.

Find out more

If you'd like more information on the products or services within this literature, or if there's anything more we can help you with, please visit our website.

www.standardlife.co.uk/funds

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