HOUSE OF FINANCE

PENSIONS INVESTMENTS PROTECTION

A Guide to Savings & Investments

PEACE OF MIND

Contents

What is a Financial Broker?

A Financial Broker is an expert in financial matters who works with you to understand your savings and investment goals and objectives, and helps you create a plan to meet those goals. Your Financial Broker will research the options available to you including deposits, investment funds, savings plans and tracker bonds, from the range of companies they deal with, providing you with a "fair analysis" of the market.

Why would I need to use a Financial Broker?

Choosing the right savings and investment products can be a daunting task. Some savings and investment products may be suitable for you and some may not. As your personal and financial circumstances change over time, so will your savings and investment needs. Your Financial Broker will be able to explain the choices available to you in simple language allowing you to make an informed decision.

They will guide you through the basic elements of investing – risk and return, diversification and your attitude to risk – and ensure you understand what's at stake. Your Financial Broker will get to know you, your personal and financial circumstances, financial plans and your attitude to and capacity for investment risk – products like investment funds, for example, can contain a level of risk that you need to be aware of.

Your Financial Broker will guide you through the process of setting up your savings and investment product and help you to make sense of charges, tax on returns and investment risk. They will advise and assist you in developing a well-researched and structured savings and investment portfolio that is compatible with your attitude to and capacity for investment risk and is designed to achieve your goals as far as possible. Ultimately, your Financial Broker will ensure you choose the products best suited to you.

How can I invest for my future?

Most people will have some form of savings in place. Savings can be for a specific purpose, like paying for your children's education or paying off your mortgage early. You may just want to build up a "rainy day fund" that can help you deal with unexpected costs or finance some home improvements, Or you may already have a lump sum that you want to put aside for the future.

Currently, deposit rates aren't as attractive as they once were, but there are options available to you that can get your money working hard for you. It might be time to look into a longer-term plan for your savings. Longer-term saving typically involves some element of risk. While the majority of investment products involve an element of risk, over the long term they may give you a better return than a simple savings account.

With any investment product, you need to thoroughly consider the level of risk involved. Bear in mind that investing in a high-risk product could result in you losing some or all of your money.

Savings & Investments

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What are the main types of savings and investment products on the market?

There are many different types of savings and investment products on the market, each with varying levels of risk and return. Here are four of the main types of savings and investment products:

- Fixed-term deposits: these deposit accounts are typically for a set period of time at a fixed rate of interest that would be generally higher than interest rates offered for regular savings accounts. By saving your money in one of these accounts you understand that you cannot access your money during the fixed term. Deposit accounts are low in risk but on the flip side they tend to produce low returns over the longer term.

- Investment funds: these vary by what the particular fund invests in – whether it's shares in top multinationals, large commercial properties, fixed interest securities issued by Governments and large companies or deposits.

Some funds may invest in just one type of asset, for example, an Equity Fund which only invests in shares in top multinationals. Other funds, referred to as Managed or Mixed Funds, invest in a mix of shares, property and fixed interest securities.

Remember: Investment funds are subject to investment risk. Their value at any time could fall below the amount you invested and are generally only suitable for longer term investment, such as five years or more. The level of risk attached to a particular investment fund will vary by what the fund invests in. To guide you, funds are typically graded on a scale of 1-7 with 1 being the lowest risk and 7 being the highest risk.

- Tracker bonds: these bonds typically lock up a lump sum for a term of about five years. At the end of the term you are usually guaranteed to get back at least what you invested (or a high percentage of what you invested, such as 90%), together with a bonus related to the growth, if any, in one or more stock markets or in the shares of certain large multinationals. If the particular stock market or shares to which the bonus is linked, do not increase in value over the term, there is no bonus payable at maturity and in this case you would get back the guaranteed capital sum only, which would typically be the amount you invested.

- Long term savings plans: these plans are available from a life insurance company. They accumulate a capital sum over the longer term from regular monthly savings. The recommended minimum term for plans like these is five years and your savings are typically invested in the type of investment funds outlined above.

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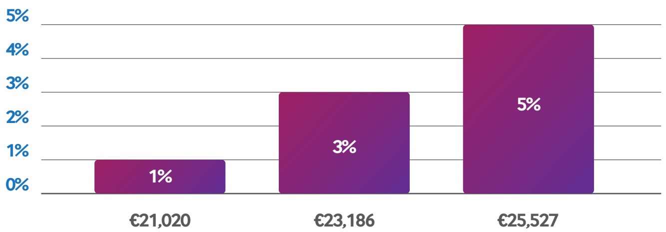
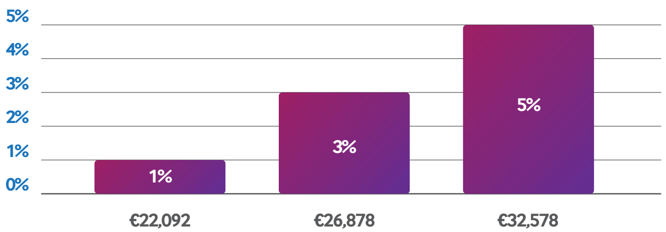
What kind of return can I expect on my investment?

The longer the term, the more impact even a small extra return will make on your investment due to the return multiplying over time. Take for example €20,000 invested for 5, 10, and 20 years and say your options are 1% per year on deposit; 3% per year on a mid-risk fund and 5% per year on a higher-risk fund (after taxes and charges). Let's look at your potential return:

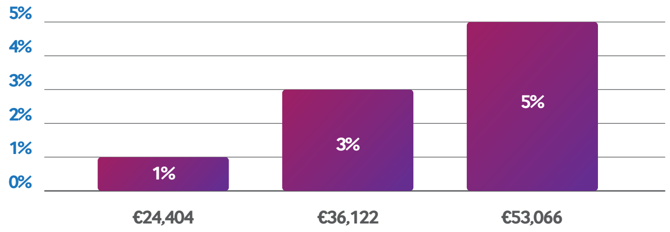
€20,000 invested for 5 years:



€20,000 invested for 10 years:



€20,000 invested for 20 years:



Warning: These figures are estimates only. They are not a reliable guide to the future performance of your investment.

It's important to remember though that investment returns can fluctuate and you may not get the average return (it could be higher or lower). There are typically no guarantees with riskier investments but the difference on expected returns widens the longer your investment term.

Additionally, while stock markets and other equity-based investments can be volatile and subject to sudden drops, they tend to trend upwards over time so if you have a long time horizon, you can "ride out" the ups and downs of riskier funds.

Another factor to consider is how safe are investments? Without doubt, the financial crisis has reshaped the view of what is considered safe for your money, but what about inflation? This erodes what your lump sum is worth in the future. Investments with low volatility (deposits, government bonds, etc.) tend to have greater inflation risk and again this is magnified for longer investment terms. Shares, property and other "real" assets have in-built protection against higher inflation.

For these reasons, it is generally recommended that you take on some investment risks when investing for the longer term to protect against inflation, but it is a complex area and you will benefit from guidance from your Financial Broker.

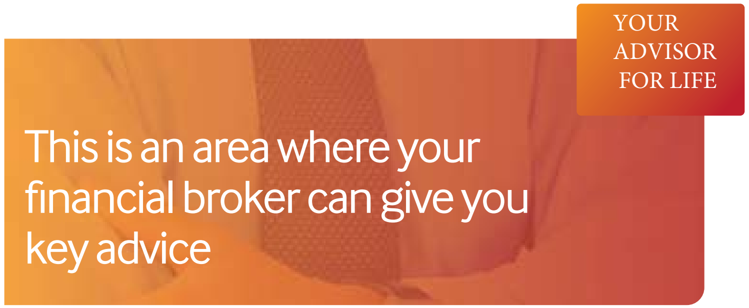
How much risk should I take on?

This depends on your risk preference, your capacity to withstand risk and your financial objectives.

You may think you have an innate knowledge of your risk preference but this can be more scientifically measured by risk preference tools (questionnaires). You can ask your Financial Broker for details on these questionnaires.

Your risk capacity depends on your personal and financial circumstances – how much can you afford to lose on your initial investment? This is an area where your Financial Broker can give you key advice.

Finally, you need to consider your investment term (as above). What are you hoping to achieve with your fund? Is there a required rate of return needed for this? What is the risk-return trade off? Are you making this decision with your spouse/civil partner who might have different views to your own? A Financial Broker regularly deals with these elements when deciding on appropriate risk and they can guide you in determining your risk profile.



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What factors should I consider when choosing a savings and investment product?

When you choose a savings and investment product, whether it's a deposit account or an investment fund, there will be a number of different things to consider:

- **What's the recommended minimum savings and investment term of the product?** Some products may be suitable for short-term investment, while others may require you to take a longer-term view.
- **What kind of access will I have to my money?** Some products offer immediate access while others may lock up your money for a particular period.
- **Does this product provide an income or capital growth?** Some products may be geared to provide regular income along the way, while others provide the opportunity for capital growth.
- **What is the associated investment risk?** Some products may guarantee to return your full investment while others may involve a risk of getting back less than you put in.
- **How will my returns be taxed?** The income and/or capital gain you earn may be taxed in different ways, depending on the type of product. For example, deposit interest may be subject to Deposit Interest Retention Tax (DIRT) while gains from life assurance savings and investment policies are subject to an 'exit tax' deduction before payment to you.

Investments can be complex but getting the right fund for you can make a serious difference to your eventual return, especially for longer term savings and investments. Your Financial Broker will be able to guide you through the different options available to you. Based on their knowledge of your financial circumstances, your goals and your attitude to risk, they can help you choose a particular product that will meet your requirements and help you achieve your financial objectives.

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