Investment Managers

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Starter guide to investing

For AXA staff and professional investors only

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Getting started with investing can seem like an uphill struggle. This is why we decided to create a starter pack to help demystify the process.

By the end of this guide you'll have covered:

- The importance of setting investment goals
- A quick guide to different asset classes and fund management styles
- Types of risk and the risk-return trade-off
- What is a fund and describing the popular types of funds
- The benefits of diversification and long-term investing
- Using multi-asset funds to get started

We hope this introduction to the basics will help you to get started planning your future!

Matthieu André
Chief Executive Officer

Investor tips

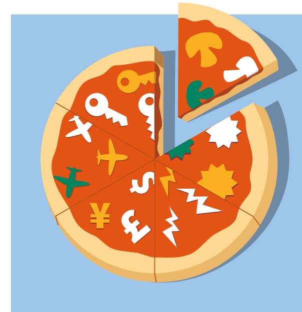
Getting started in investing can seem overwhelming. But if you go through the five-point investment starter checklist below, it should make getting started less daunting and even provide a handy checklist for the more experienced investor.

Have a plan

Having an investment plan is important to achieving your goals in life. Whether you're new to investing or have years of experience, setting some investment goals can help you focus on what's really important to you. And what you need to do to achieve them. This is something that would be useful to discuss with a financial adviser.

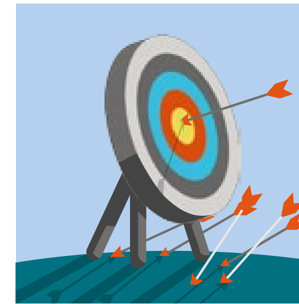
Understand your level of risk

Selecting the right level of risk for you is essential. If you're likely to react negatively to market declines, you may want to have lower risk investments. It's better to be a bit more conservative and hold on to your investments during market downturns than to buy riskier assets and sell during market crashes!



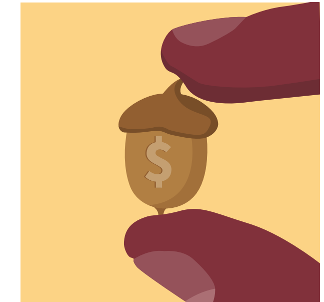
Spread your money

Investing in a range of different assets could smooth out your returns. While one part of your investment portfolio could be falling in value, the others may be flat or rising to balance it out. This variety can reduce investment volatility by smoothing the ups and downs in returns and help avoid unnecessary risk.



Don't be scared of mistakes

History shows that the best strategy is to maintain a long-term perspective. Nobody gets investing right all the time. Mistakes are part of the investing process. To try to avoid making the wrong decisions consider developing a thoughtful, diversified, long-term plan. If your investment horizon is longer than just a few years, remember that it's likely that you could recover losses, although this is not guaranteed.



Don't need to start big

You can start investing for as little as $50 per month. Many people put off investing because they think you need a large lump sum to get started. This just isn't true. The key to building wealth is developing good habits — like regularly putting money away every month. If you make investing a habit now, you'll be in a much stronger financial position down the road.

Past performance is not a guide to future returns.

Your investment route map

It is much easier to decide on your investment goals than it is working on a plan to achieve them. And yet it is vital that all investors work out a realistic, flexible and ultimately profitable strategy to maximise the chances that all financial objectives can be met, both in the medium and longer term.

Goals require a strategy

Having an investment plan or ‘strategy’ is essential for achieving your goals. This is something that would be useful to discuss with whoever is guiding your investment decision making (your appointed agent or adviser). They will help you to decide on an investment style to match your financial objectives while maintaining a balanced approach to risk and reward.

The big questions

Thinking about a few key questions could help you to decide on the types of investments that might help you achieve those goals.

1 Timescale
How long are you investing for?

2 Risk and return
How much risk are you prepared to take with your money and assets?

3 Affordability
How much do you need to save and what can you afford to invest now?

4 Access
Could you need the money sooner than you thought and will you need regular income?

Initiating a long term investment project may appear daunting. But with discipline, commitment and perhaps some advice from a trusted expert, you could be on your way to building a more comfortable future.

Imagining yourself (tick the box):

- ☐ FaceTiming your children at university
- ☐ Taking time out to do a round-the-world yacht race
- ☐ In the garden of your dream home
- ☐ Starting your new fin-tech company in San Francisco
- ☐ Other

... could be the inspiration that you need!

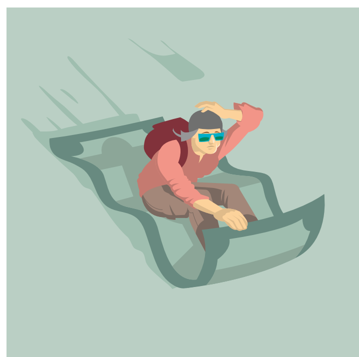
Asset classes explained

What is an asset class?

Each type of asset or 'asset class' is a way in which you can invest your money. They bring their own specific risks, rewards and characteristics that dictate how they can react over time. Even within asset classes, assets can behave very differently. For instance, one stock or share can do well, while another does poorly. Traditionally, there are five main asset classes:

Cash

Money that is available to be spent immediately



Cash or money is generally the safest place to keep your wealth. This is why cash is often a great place to park short-term money. The asset class for cash includes physical currency, the balances of savings and current accounts, tax-efficient wrappers and money market funds.

Bonds (fixed income)

Lending money to someone

A bond is just another way of saying debt. These 'debts' are a form of IOU issued by governments and companies when they want to borrow money from investors. They pay a fixed level of interest, with higher-risk borrowers paying more in interest than lower-risk borrowers.

Property

Ownership of physical space

Investing in property is most often through commercial or residential buildings or buying shares in property development companies. Returns on property investments are typically linked to a rental of some kind and it can also offer the potential of capital growth.

Shares (equities)

Ownership into a business

If you own shares in a company, you own a small part of the company. Hopefully this share of the company increases in value if the company does well which means the company may pay out a proportion of profits in the form of dividends. Usually, shares trade on the stock market. A place where people who want to sell shares and those who wish to buy shares can meet and arrange a transfer of shares.

Alternatives

Looking beyond traditional assets

They can often be described as investments that aren't bonds, shares, traditional property assets or cash. As a result, they often display different characteristics to the main asset classes or a 'low correlation' to stocks and bonds. Some typical 'alternative' assets are infrastructure investments, commodities, private equity and even crypto-currency.

Managing risk

One of the most important aspects of risk is the extent to which the value of your investments is likely to swing up and down. Some asset classes are riskier than others, but none are risk-free. The benefits and risks listed are not comprehensive; there are additional benefits and risks that you should understand before making any investment decisions. Each asset class will respond very differently to changes in economic conditions, which is why having a diversified portfolio is generally a good idea.

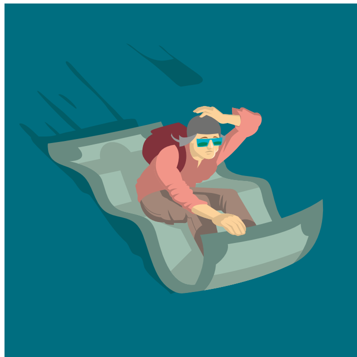
We have ranked the main asset classes in order of increasing capital risk and identified the main benefits and risks of each asset class.

Lower Risk

Potentially lower reward

Higher Risk

Potentially higher reward



Cash

Risk-averse investors often seek out cash investments because one dollar will always be one dollar.

But after taking into account the effects of inflation, their investments could actually be losing their purchasing power.

Bonds (fixed income)

With bonds you typically know how much interest to expect and how often you'll receive it. As a result bonds are steadier and usually less risky than shares.

However, bonds are not risk free they have credit risk, also known as default risk. This is the risk that a bond issuer will default on the payments of interest or even the face value of the bond.

Property

Property could be an appealing option for investors who like the idea of buying something tangible in a bid to diversify their portfolio risk.

Although, it can be tough to sell in a crisis, which can result in investors being unable to get their money when they want it or having to accept a lower valuation. This is called liquidity risk and it should be considered a long-term investment.

Shares (equities)

An attractive feature of shares is that they are generally very liquid (easy to buy and sell).

However, shares are typically seen as one of the riskier types of investing because their value can move up and down very quickly.

Alternatives

Having alternative assets can provide broader portfolio diversification, and therefore may reduce risk as a result.

However, alternative assets can be complex, which increases the potential risk of correctly valuing them and therefore selling them if the money is needed quickly.

Understanding risk

When you invest, you're exposed to many different types of risk. While various statistics often define risk, the broadest definition of risk to investors is failing to achieve their investment goals. There are a few basic risks that can prevent investors from reaching their goals:

Market risk

This refers to the risk to investments from movements in market prices such as stock prices, foreign exchange rates, interest rates and commodity prices. This could mean a loss in the value of your investments. The best-known strategy for reducing market risk is creating a diversified portfolio consisting of multiple asset types that behave differently to each other in times of market stress.

Liquidity risk

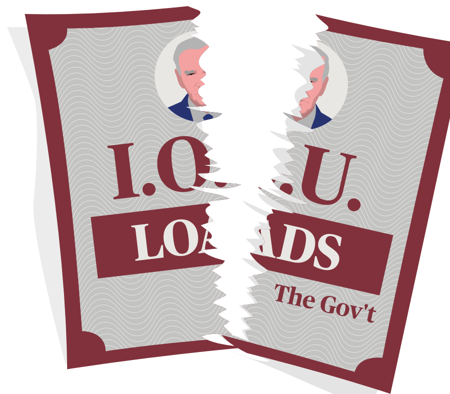
Defined as the risk of being unable to sell your investments at a fair price and get your money out when you want to. To sell the investment, you may need to accept a lower price. You might also experience delays in selling the investment. And, in some cases, it may not be possible to sell the investment at all.

Inflation risk

The risk that your investments will buy fewer things, so-called 'purchasing power' because the value of your investment fails to keep up with inflation. Inflation erodes the purchasing power of money over time – the same amount of money will buy fewer goods and services.

Concentration risk

Your portfolio can often be at a greater risk of loss if it is focused solely in the same sector, asset class or geographic location. This is because when an unexpected event occurs, in the short-term, markets often do not discriminate and all assets within an asset class or sector can suffer losses. You can offset this risk when you diversify your assets; you spread the risk over different types of assets, sectors and geographic locations. Or in other words, don't put all your eggs in one basket.



Credit risk

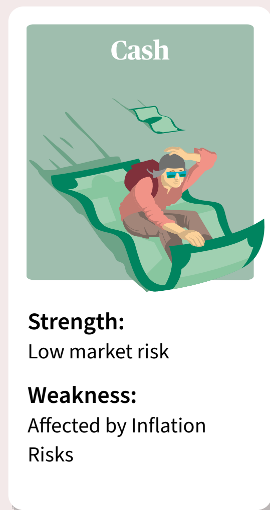
Credit risk applies to debt investments like bonds. It's risk that a government or company that issues a bond might run into financial difficulties and won't be able to pay their debt obligations. Credit risk is calculated based on the borrower's overall ability to repay a loan.

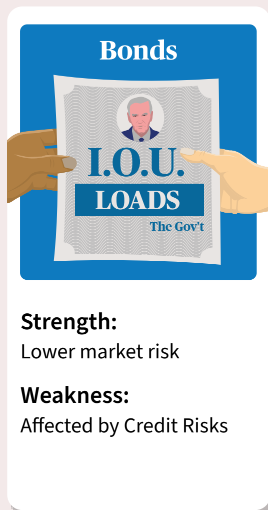
Why is risk important?

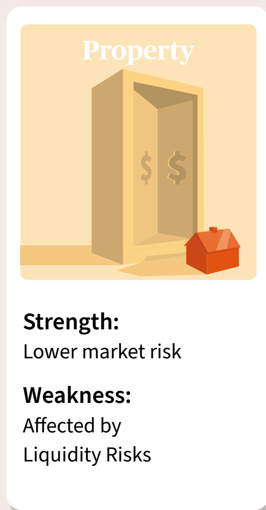
Investors take on risk because they are looking for returns. The traditional rule of thumb is 'the higher the risk, the higher the potential return' although this is not always the case.

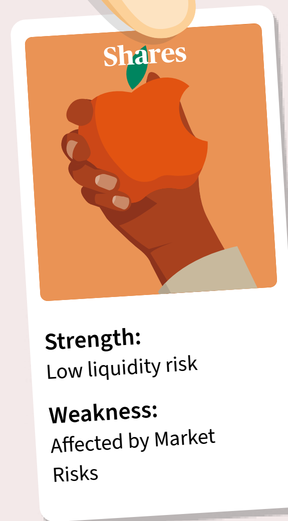
The extent to which each asset class is affected by the risks described on the previous page varies. To give you an idea we have given an example of the top strength (little or no exposure to a risk) and weakness (a high degree of a risk) below for the five main asset classes.

It's important to note that each asset class has multiple strengths and weaknesses, and these can change with the market cycle so it's a good idea to talk to a trusted adviser to make sure you are comfortable with the risks you are taking when investing.

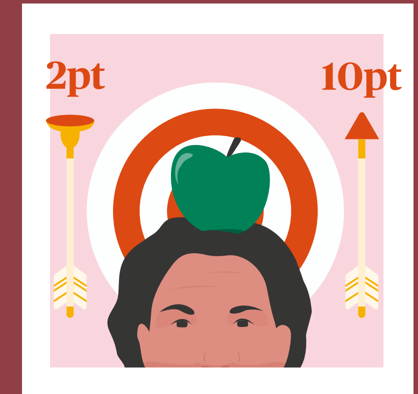








This is why investment experts recommend investing in a diversified portfolio spread across different investments so that you're not reliant upon a single investment for all of your returns. The key benefit of diversification is that it helps to minimise the risk of capital loss to your investment portfolio.



Choosing the right level of risk

Selecting the right level of risk for you is essential. Too much risk for your circumstances could lead to sleepless nights, and you could lose money you cannot afford to. Too little risk and you might not achieve your long-term goals. If you are investing and have a long time horizon, you are likely to make more money by carefully investing in a mix of assets like stocks and bonds, rather than restricting your investments to interest on savings.

Various types of risk need to be considered at multiple investing stages and for different goals. Review your existing investments. Which risks affect you? Are you comfortable taking these risks?

What is a fund?

The basics

A fund is a type of investment created by an investment company that invests money on behalf of their clients. In this type of structure investors in a fund pool their money with other investors. The pooled money is then invested in line with the objectives of the fund.

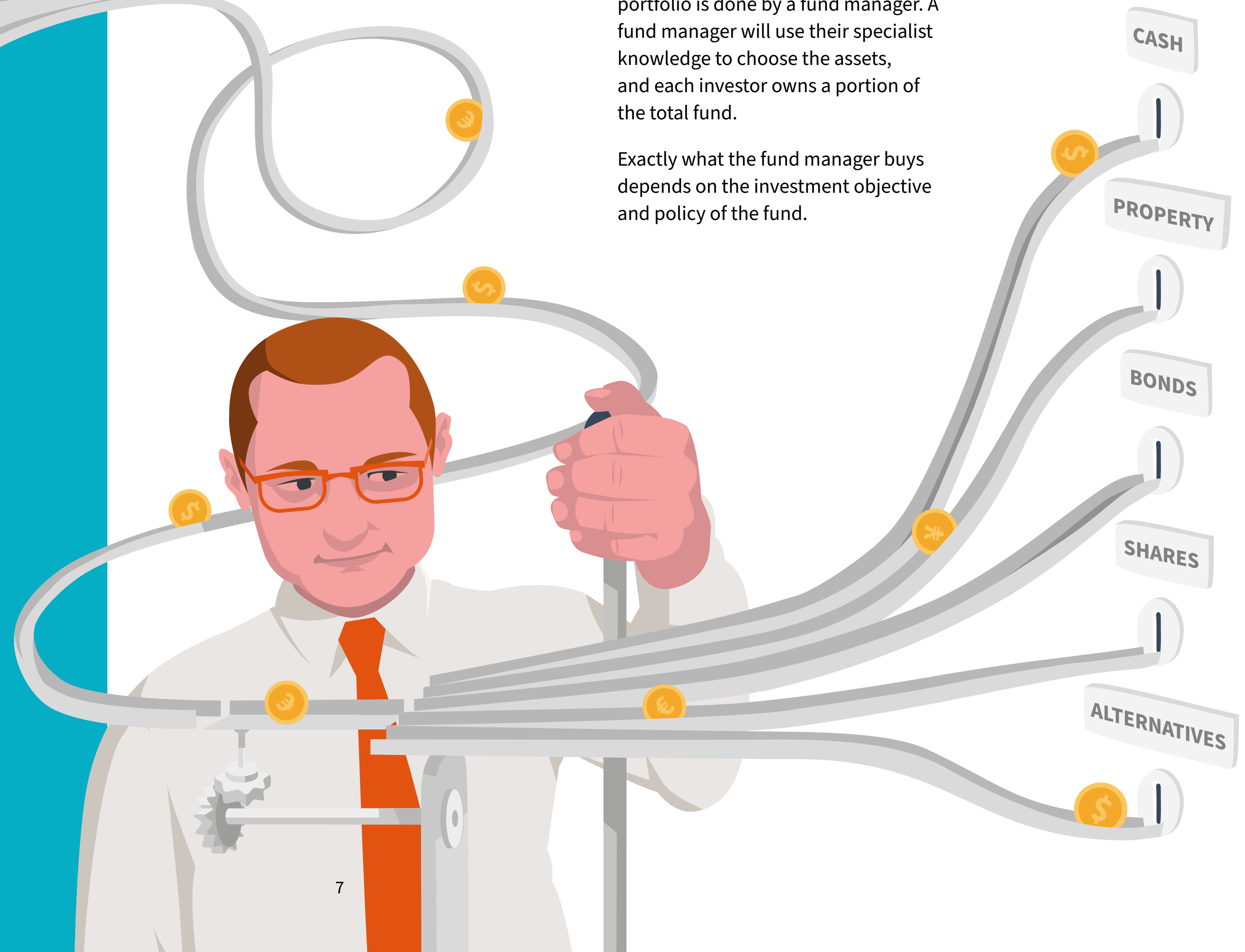
A fund will have an objective to achieve such as delivering a regular income or trying to grow your money. The fund's investment policy usually outlines the mix of investments that are used to achieve it.

Funds are typically used by people who are looking to invest to meet their financial goals. But who don't have the time to research and manage the investment themselves.

How funds work

The job of building the assets in a fund portfolio is done by a fund manager. A fund manager will use their specialist knowledge to choose the assets, and each investor owns a portion of the total fund.

Exactly what the fund manager buys depends on the investment objective and policy of the fund.



Popular management styles

Active funds

An active fund aims to outperform the market. A dedicated fund manager tries to pick the best investment for the fund, assisted by a research team and makes ongoing decisions about what to buy and sell within the fund to achieve the best returns. There is a cost to this though – charges are typically higher when compared to equivalent passive funds. Active funds are usually higher risk than passive funds but have the potential for higher returns.

Passive funds

This is a strategy where a fund tries to replicate an index (like the FTSE 100). This minimises buying and selling assets to reduce costs. If the FTSE 100 rises 10%, so should their investment. Which means the investment will track but not outperform the relevant market. With passive funds costs are usually lower than active funds, with less risk but less potential for high returns. Many investors like this simplicity.

Popular types of funds

Single asset class/ geographic focus

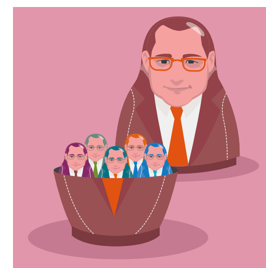
Often funds that are based on a single asset class (usually stocks, bonds or property) have a geographic or regional focus too. A few popular examples are European equity funds, emerging market bond funds and UK property funds.

Multi-asset funds

An increasingly popular fund structure is multi-asset funds. These are funds that invest in several different types of asset classes, which may include some of or all of stocks, bonds, property, alternatives and cash. They may invest directly in these asset classes or they can gain exposure by buying other funds in the 'fund of funds' structure.

Sector or thematic funds

Sector or thematic funds are becoming more popular as part of a well-diversified portfolio. Sector funds are highly focused mainly investing in just one sector such as 'healthcare' or 'tech'. Thematic funds are much more broad-based.



Multi-manager funds

This is simply a fund that invests in other funds. Usually, the funds selected to go into this structure (the underlying funds) are hand-picked by experts to create a diversified portfolio. Multi-manager funds are also known as fund of funds.

Mixing it all up

While there is no right answer, a popular choice for investors is to spread risk by building a portfolio with a mix of fund types. This could include an allocation of passive funds or multi-asset funds covering the broader market, then adding a few thematic or geographically specific funds, depending on the individual investor's goals.

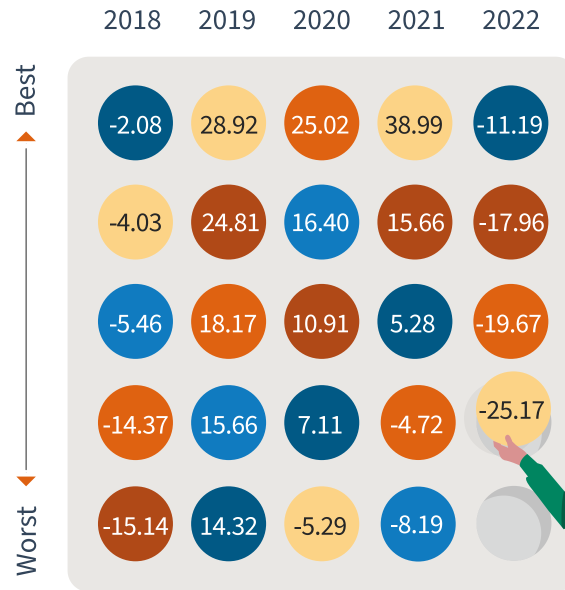
Diversification

Selecting the right mix

Putting all your money in one type of asset can be a risky strategy. You can help reduce that risk by 'diversifying' your assets or in other words spreading your money across a mix of investment types and countries.

One of the major aims of diversification is to construct a portfolio of assets that don't all behave in exactly the same way. Different assets are affected by different factors: economics, interest rates, politics, conflicts, even weather events.

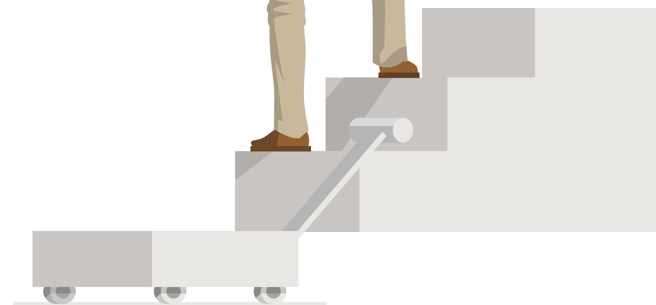
This diversification can reduce your overall portfolio volatility by smoothing out highs and lows in returns and help avoid unnecessary risk. What's positive for one asset can be negative for another, meaning when one rises, another may fall.



Source: Morningstar, data 1 January 2018 to 31 December 2022. US dollars. Past performance is not a guide to future performance.

Asset classes

- US high yield bonds
- UK government bonds
- US property
- European shares
- Asian shares



From year to year, it is difficult to predict which asset classes will be the best performers. The chart on the left shows why it is so important to make sure your investments are diversified. As you can see, over time no single asset class or region is a consistent top performer.

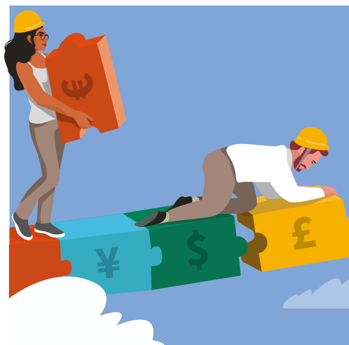
Long-term investing

Committing to a long-term investment strategy could help you avoid making any quick-trigger decisions and ultimately, mistakes.

Jumping in and out of the market quickly can be much riskier than sitting back and dealing with the highs and lows of the stock market with a relaxed perspective.

Markets go up and down

There's no escaping volatility when investing: markets go up and down. But if you're still worried, you should lower your expectations for future returns by buying safer - but lower growth - options. The history of asset class returns shows that in developed markets stocks typically outperform their government bond counterparts over the long term but they do experience frequent large drops in value.



Investing for the long term

How much you allocate to higher risk assets like stocks versus lower risk assets like bonds will depend on factors such as your investment objectives and your ability to tolerate risk. Long-term investors are usually comfortable investing a higher percentage of their money in stocks because the risks may provide greater rewards in the long term.

The benefits of compounding

Time is your greatest friend as an investor. Compounding simply refers to the benefit you get by reinvesting any returns you receive on your investment rather than taking any profit. For compounding to work its magic it requires the reinvestment of investment returns and time. A bigger pot of money each year means the interest or returns you can potentially receive is greater.

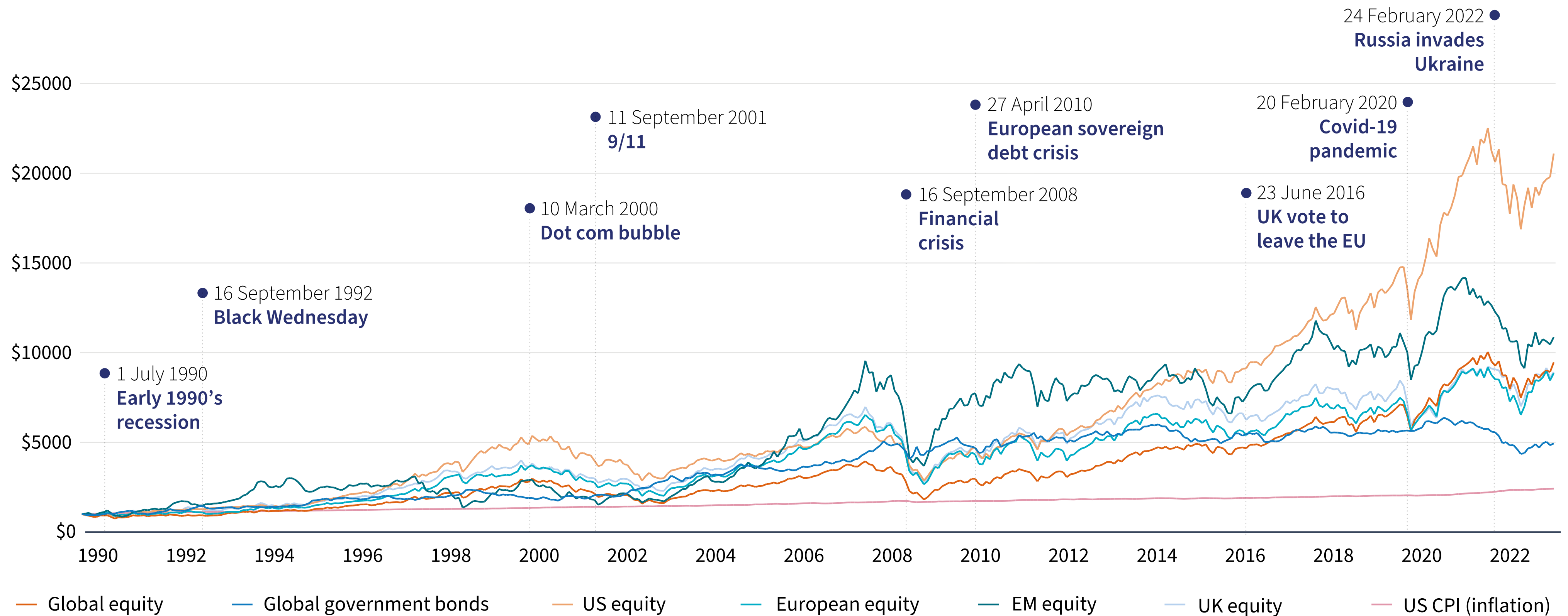
> "Compound interest is the eighth wonder of the world. He who understands it, earns it... he who doesn't, pays it.

Believed to have been said by
Albert Einstein

The history of long-term investing

Over the years there have been many events that have had large impacts on financial markets, from Black Wednesday in 1992, the more recent financial crisis in 2008 to the impact of Covid-19. However, as can be seen from the chart below, the long-term trend for market performance has continued to remain positive.

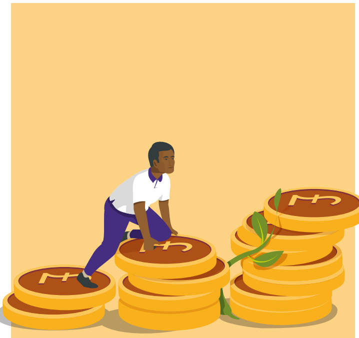
If you are investing for the long term, while you will experience market dips and volatility from time to time, history has shown us that these events won't stop the long-term positive performance of markets. It's important to remember there are no guarantees, and past performance is not a reliable guide to future performance.



Source: Morningstar, data 31 December 1989 to 30 June 2023. US dollars. Rebased to 1000. Past performance does not predict future returns.

Benefits of investing regularly

Regular investing by putting a set amount each month into a portfolio is a well-recognised approach to building wealth. Not only can it smooth returns, it can also take the hassle out of investing.

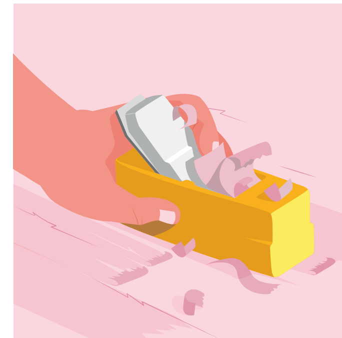


Makes investing accessible

Regular saving and investing is a great habit that can provide you with more flexibility down the line. If you're keen to begin investing but you don't have a lump sum available, regular investing is a good way to slowly build up a pot.

Removes the worry about timing the market

It takes the emotion out of investing, as you don't have to worry about when to enter the market, and just have to be confident that bad months will be outweighed by good ones over the long-term. If you're investing regularly you don't need to worry about trying to pick the right time to buy and sell your investments.



Smooth out market volatility

Rather than focusing on timing, if you routinely invest a regular amount into your investment over a period of time you will be investing across a range of prices. This averages the price of the investment, smoothing out the highs and lows in share prices. When they go up, the value of your stocks rise, and when they go down your next contribution buys more.

Cost averaging

Cost averaging is an investment approach with the goal of reducing the impact of volatility on large investments. This is usually done by investing the same amount on a monthly basis to smooth out the impact of the highs and lows of the price of your investments.

The result of cost averaging is that you're buying assets at many different prices, rather than buying at the one price. It reduces the risk of incurring a substantial loss resulting from investing the entire 'lump sum' just before a fall in the market.

However, it's important to remember that you may not necessarily benefit in this way using cost averaging. The potential downside of cost averaging is that if you are investing at regular intervals in a continuously rising market, you will miss out on some of that market growth.

Behavioural benefits to cost averaging:

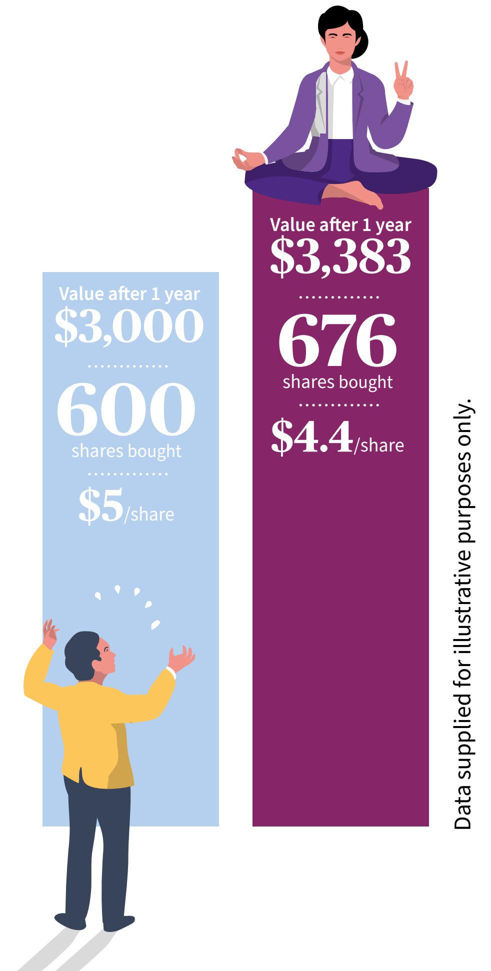
- A great way of getting into the routine of investing
- It takes the emotion out of investment decisions
- It can also help you to build up your investments over time if you don't have a lump sum

An illustrative example of cost averaging

Spread investment
$250/month for 1 year
(shares bought)

Lump sum investment
invested $3,000
(shares bought)

Share price
($)



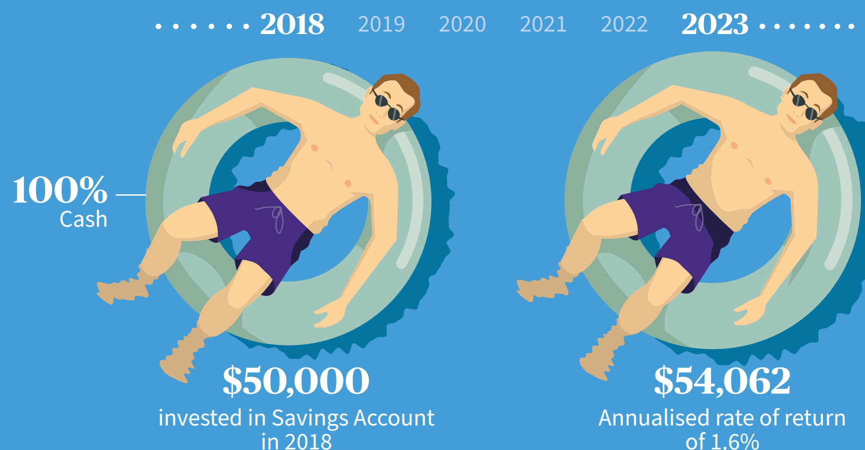
Data supplied for illustrative purposes only.

Savings versus multi-asset funds

Savings accounts can offer 100% capital guarantee and ease of access. However, in a low-interest-rate environment, savers are in a tight spot and have to make their money work harder to generate a real return. Holding or moving to cash will help avoid short-term stock market volatility, but it means you will lose out on any potential market gains over the long term. As you can see in the return example, multi-asset funds stack up well when it comes to returns over a long time period.

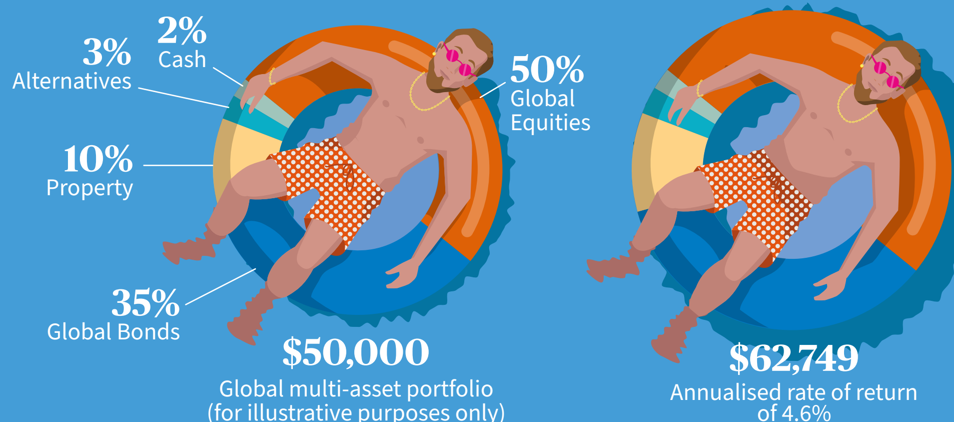
Cash

For your short-term goals, the general rule is to save into cash deposits, like bank accounts.



Multi-assets

For longer-term goals, you may want to consider investing with multi-asset funds because inflation can seriously affect the value of cash savings over the long term.



Discrete performance (%)	01/07/2022 - 30/06/2023	01/07/2021 - 30/06/2022	01/07/2020 - 30/06/2021	01/07/2019 - 30/06/2020	01/07/2018 - 30/06/2019
MA Portfolio - USD	7.78	-13.12	22.17	2.87	6.64
USTREAS Federal Funds	3.96	0.27	0.08	1.32	2.29

MA portfolio: Global bonds (35%): Bloomberg Global Aggregate. Global equities (50%): MSCI ACWI. Property (10%): S&P Global Property. Alternatives (3%): UBS FS HFRX Global HF SF. Cash (2%): USTREAS Federal Funds. Rebased in US dollars where appropriate, i.e. all index returns are recalculated based on exchange rates to give returns for a dollar investor. Source: Morningstar Direct, 5 years to 30 June 2023.

Savings AND multi-asset funds

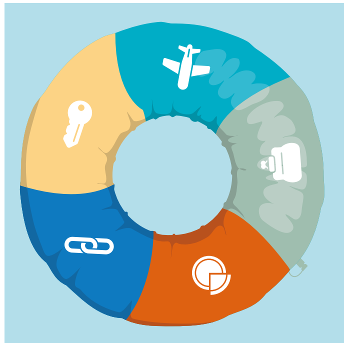
We believe that over the long term, investing and saving can complement one another. For many people, this combination is potentially a way to achieve their long-term financial goals. And if you do decide to invest remember one thing above all: diversification can help spread the risk to your capital. Don't put all your eggs in one basket.

Past performance is not a guide to future performance. The value of your investment and any income can go down as well as up and you may not get back what you originally invested. Fund charges that would be payable are not included and when included would have the effect of reducing the performance shown.

Using multi-asset funds to get started

If you are considering a longer-term investment of five years or more, and are comfortable with the risks involved, then the next step might be deciding how to get started in investing. Learning the pros and cons of the world's various markets and assets can be time-consuming and difficult. That's why many people leave these decisions to experts. One solution could be to opt to invest in a multi-asset fund.

We are experts in multi-asset, and we believe there are many benefits to investing in a multi-asset fund:



A diverse range of assets

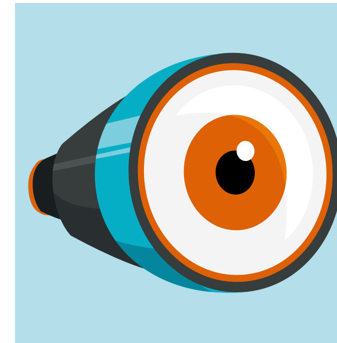
Multi-asset funds can provide investors with exposure to a broad range of asset types. You can further increase this 'diversification' by blending geographies and sectors.

Potential for smoother returns

Asset classes don't tend to all fall in value at the same time. So multi-asset investors are, to some extent, more insulated from the highs and lows of individual asset markets.

Ongoing expert monitoring

Generally, multi-asset investing comprises complex asset allocation decisions supported by risk reduction strategies by a team of experts who collaborate to search for the best mix for your investments.



Targeting outcomes

Selecting a multi-asset fund that matches your attitude to risk can be a good tool to help investors achieve their financial outcomes while ensuring they do not take on more risk than they are comfortable with.

Simple to understand

And finally, multi-asset funds package a diversified, complex portfolio balancing risk and reward, but presented in a simple-to-understand way.

Important information

Capital at risk. The value of investments, and any income from them, may fall as well as rise and investors may get back less than they originally invested. Exchange-rate fluctuations may also affect the value of their investment. Due to this and the initial charge that is usually made, an investment is not usually suitable as a short-term holding.

Past performance is not a guide to current or future performance, and any performance or return data displayed does not take into account commissions and costs incurred when issuing or redeeming units.

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