GUIDE TO INVESTMENT RISKS

For retail investors

embark
platform

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INTRODUCTION

Embark offers an online platform investment service, where you can hold your assets and investments. The online platform allows you to view the portfolio of assets and investments held in your account. We currently provide an Embark General Investment Account (GIA), Embark Individual Savings Account (ISA), Embark Junior ISA (JISA), Embark Personal Pension and an Embark Third Party Investment Account (TPIA) in which you may hold assets and investments subject to the restrictions applied by each account and the Embark platform.

We carry out all instructions received from you or your adviser on your behalf on an execution only basis, which means that provided the instructions are correctly communicated, we follow those instructions without giving any advice to you. Following on from this we are not required to apply any suitability criteria to you, prior to your choosing to open an account with us, or as to the type of investment we have been instructed to buy. The role of assessing the suitability of any account offered by us or of any investment rests with you or your financial adviser.

The Financial Conduct Authority (FCA) requires firms like ourselves to provide you with details of the risks of the type of investments we make available to you on the Embark platform. All investments we make available to you on the Embark platform are categorised by the FCA as non complex. This however does not mean such investments are without risk. A listed share on a company for example, could significantly lose its value in the event the company goes into administration.

This guide does not cover every possible risk that may apply, or every possible investment you may purchase, nor does it take account of your personal financial circumstances.

SHARES

The value of listed shares will fluctuate due to the economic climate, the company's performance and market sentiment towards the company or industry sector.

FIXED INCOME

Governments, other public bodies (such as local authorities) and companies will often raise money by issuing notes known as securities or bonds, promising to pay an income at defined intervals.

COLLECTIVES

Funds are regulated by the FCA or equivalent overseas body. They are professionally managed schemes, which hold pooled investments and other assets in line with a stated set of investment goals and limits.

INVESTMENT TRUSTS

Investment Trusts have some things in common with funds, but they are constructed as companies whose business is to invest the capital that has been raised by the sale of their shares or borrowing.

MAKING INVESTMENT DECISIONS

UNDERSTAND THE RISKS

Before you make any investment decisions, you should discuss with your financial adviser to ensure you understand and are prepared to accept the level of investment risk you are taking on. You might also want to check whether the investment you are investing into is covered by the UK Financial Services Compensation Scheme (FSCS) or any overseas equivalent.

Please remember that the value of your investments may go down as well as up and you might get back less than you originally invested. Any dividends or income from your investments, might reduce or stop and past performance is no guarantee that those performance levels will continue in the future.

HIGHER RISK INVESTMENTS

Higher risk investments, such as stocks and shares, offer the potential for higher returns but because the values can change quickly. You are at risk of losing the money you invest, especially if you need to access your money quickly.

LOWER RISK INVESTMENTS

Lower risk investments, such as government bonds, offer lower but more stable returns and less chance of losing the money you invest. However, lower returns may mean that inflation reduces the value of your investments.

DIRECT EQUITIES (SHARES)

Shares trading (or listed) on the London Stock Exchange main market or other recognised exchanges.

The value of listed shares will fluctuate due to the economic climate, the company's performance and market sentiment towards the company or industry sector. Most large companies aim to pay a dividend to shareholders each year but their ability to do so will depend upon how successful they are as a business and general market conditions. The total return or loss on shares will depend on both capital value and dividend, and these may fluctuate from year to year.

FIXED INCOME SECURITIES (BONDS)

Governments, other public bodies (such as local authorities) and companies will often raise money by issuing notes known as securities or bonds, promising to pay an income at defined intervals. UK government securities are called Treasury Bonds or Gilts. Securities issued by companies are called Corporate Bonds. Any security is subject to the risk of the issuer's ability or willingness to meet interest payments and to return the value of the principle at redemption.

Most securities pay a fixed amount of interest. The value of that interest will be eroded by inflation, which can potentially be significant in times of high inflation. This will affect the capital value of the bond meaning that it might only be possible to sell it at a loss.

Bonds in issue can be bought and sold. When they are, their value will depend on a number of factors. For example, the value of fixed interest bonds will usually rise if variable interest rates fall and vice versa. Selling a bond before its maturity will also be subject to price volatility, due to market perception of the creditworthiness of the issuer and general market conditions.

Not all countries and companies have the same credit rating and so the investment risk for different fixed income securities will vary.

Where bonds are listed in a foreign currency, there will also be an exchange rate risk in addition to the risks described above.

COLLECTIVE INVESTMENTS

Funds are regulated by the FCA or equivalent overseas regulator. They are professionally managed schemes, which hold pooled investments and other assets in line with a stated set of investment goals and limits.

For example, a fund that invests in UK Bonds or in smaller company shares throughout Europe. When you invest in a collective you are allocated units, the price of which will fluctuate in line with the number of units in issue and the value of the underlying investments and assets. The fund manager will usually, but not always, be able to sell units on request.

Many funds will invest in shares and bonds as described earlier. Where funds invest in those assets, the risks mentioned above will also apply, including exchange rate risk.

TYPES OF COLLECTIVES

INCOME FUNDS

Where a fund is managed mainly to produce income, part of the fund manager's annual management charge may be applied against the capital of the fund, rather than against the income, which may restrict capital growth.

SPECIALIST SECTOR FUNDS

Specialist sector funds, such as technology, are considered to be higher risk owing to their over-concentrated risk to specific assets. Such funds can offer potential for greater return over time but this tends to be coupled with greater volatility.

PROPERTY FUNDS

Most property funds will hold some of their assets in cash or other assets that can be exchanged for cash at short notice, enabling withdrawals from the fund. At certain times, notably when the value of property funds is falling, it may not be able to make withdrawals because those assets have all been sold and the fund manager needs to arrange to sell one or more properties. Therefore you may not be able to get your money back when you want. In addition, the value of the property in the fund may be a matter of a valuer's opinion rather than fact.

UNIT TRUST FUNDS

Where a fund invests in another unit trust, there may be a cost to the fund to cover the buying and selling of assets levied by the underlying unit trust manager. When this occurs there will be a negative impact on the performance of the fund.

FUNDS DESIGNED TO PROVIDE PROTECTION

This type of fund aims to provide investment growth while also providing some protection for the investor's investment. The extra cost of providing this protection will reduce the performance potential of the fund. If the underlying investments held by the fund experience a significant fall in value, the fund will have to hold a high proportion of cash in order to provide the protection. This could mean that the fund is not able to benefit for any recovery in the value of the investment held, could restrict the potential for future investment growth and in extreme circumstances lead to the closure of the fund.

The protection is normally provided through a contract with a third party and is therefore subject to the ability of this third party to meet its obligations. If the third party defaults the protection may be lost.

INVESTMENT TRUSTS

Investment Trusts have some things in common with funds although they are constructed as companies whose business is to invest the capital that has been raised by the sale of their shares or borrowing. Therefore, rather than buying units in a fund, you buy (or sell) shares in the Investment Trust itself. The share price is related to the size and nature of the underlying assets, which the Investment Trust holds.

Different Investment Trusts invest in different assets, have different investment strategies and therefore carry different levels of investment risk. Some Investment Trusts may invest in complex investments. Where the Investment Trust invests in overseas assets, there will be an exchange rate risk.

Many Investment Trust shares trade on a stock exchange. As with all shares their value may fall as well as rise. If they do not trade on a stock exchange, you may have difficulty selling them.

If an Investment Trust has borrowed to invest, the borrowings are likely to affect your investment value. Broadly speaking, the more an Investment Trust borrows, the greater the scope for investment returns or losses. Therefore, a high level of borrowing (or gearing as this is called) may lead to higher potential returns but at the cost of a greater degree of risk.

Embark platform
PO Box 24065
1 Tanfield, Edinburgh EH3 1EY // embarkplatform.co.uk

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