Begin

Invested

Your Questions Answered

Bank of Ireland

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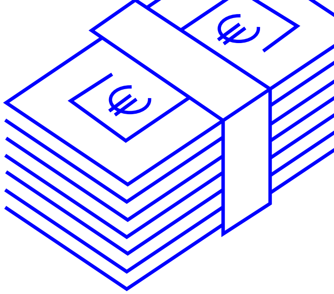


At the start of May, we launched this year's new webinar series called Invested to help people understand more about savings and investments. Our aim was to educate people about investments to improve their financial wellbeing and to enable them to make better financial decisions for their financial future.

Our previous Invested webinars have been an unprecedented success. With so many viewers joining us for each of the webinars and with so many questions asked throughout each webinar, we just couldn't get through them all in a short period of time. So as a follow-up, we have collated this Invested FAQ guide which captures the questions that we received from viewers, but didn't get a chance to answer during the webinars. We combined those with a similar theme to cover as many as possible.

Starting your investment journey

We had quite a few questions asking about how to get started in their investment journey. We have a full recorded webinar to help you with this, visit www.bankofireland.com/invested.

We recommend following 3 simple steps:

Step 1 – Understanding where you are starting from

What is your current position - what you have and what you owe, what is coming in and what is going out. It is a great exercise and one that helps us understand what you need for day to day spending, for the short and medium term and what you need for the all important emergency fund. This allows us to agree whether you can afford to invest and how much you can put aside for the long term.

Step 2 – Get an understanding of your goals

In other words, where you want to get to.

Step 3 – agree a plan to get you there, including assessing what type of investment journey you want

We look at optimising your returns which is all about getting the best possible return but within the level of risk you are comfortable with.

"Setting goals is the first step in turning the invisible into the visible"

Tony Robbins

Investing when you're older

We had some questions about investing from older guests.

As Ireland's leading bancassurance we designed, developed and established a unique Senior Advisory Model which is the first of its kind and a truly unique offering that allows us to engage with our loyal more Senior customers to prepare and support them through Pivotal later life moments so that they can enjoy the benefits of their wealth in the present; build their wealth to enable their future goals; and share their wealth with those they love and enable them to thrive. In Bank of Ireland we recognise that customers are diverse with varying needs, resources and options, from intergeneration transfer to confidence about basic yearly living, to healthcare.

The dedicated Senior Proposition for our customers aged 75 to 85 offers the following:

1. Help clients to set their goals and priorities and build a roadmap to secure their and their family's financial future and protect against the unexpected.
2. Understanding longevity of assets through a Financial Wellbeing Senior Life Planning journey.
3. Innovative Investment Solutions with detailed and specialised senior investment guidelines
4. Detailed discussions on Will Making, Power of Attorney, Inheritance Planning

Deposit Rates

Deposits form an essential part of the mix of assets in which your money should be held. Deposit rates typically fall short of beating inflation over time and that is why we devoted this webinar to looking at ways to enhance the returns on a portion of your money through investing over time.

Tax

We had quite a few questions on tax and as always, we do recommend that viewers get help from tax advisors for very specific questions. We will try to cover some of the general basics for personal investments: many of the "funds" we discussed are known as Unit-linked funds. Typically, your money grows tax-free in these strategies and exit tax (currently 41%, May 2023) is deducted from gains when you encash your holdings. If you hold one of these funds for 8 years, you are "deemed" to have disposed of your funds and gains to that point (if any) are taxed within the fund at that point. Tax is generally deducted at source. If you buy shares, you are liable to capital gains tax on any profit you make, currently at a rate of 33% (as at May 2023) and you pay income tax at your marginal rate on any dividend income you earn. You may be able to offset any losses for Capital Gains Tax purposes, but indexation for inflation was done away with some time ago.

We were asked about the taxation of Exchange Traded Funds (ETFs), for Irish investors, the exit tax rate of 41% again applies as well as the afore mentioned 8-year rule. There may be additional taxes, depending on where the investor or the ETF are domiciled.

These answers are compiled based on the information available at the time of writing (May 2023) and may be subject to change if tax rules and legislation change. We always recommend getting independent tax advice should you need a specific, definitive answer.

Investing and Foreign Exchange

We touched on this during the webinar. There are foreign exchange rate risks for investors in assets that are denominated in currencies other the Euro. Some funds use "hedging strategies" which aim to manage, reduce or even eliminate such risks. Others see that as a limiting cost that has little long-term benefit. There are many disparate views on how to manage currency risk and there are a range of approaches taken by fund managers. If it is a concern of yours, you should ask what specific approach is taken within the funds you are considering.

Fees and Charges

Costs can have quite an impact on what your investment delivers for you. We would suggest that what is really important is not necessarily looking for the cheapest solution, but rather the one that offers the best value for money.

There are a number of factors that can make a strategy more expensive than others: actively managed funds usually require more human intervention and research. Hedge funds and absolute return funds often use risk management methods that carry higher costs. Private equity strategies that are in scarce supply or high demand can cost more. If you value a higher level of risk management, then you can see that you may pay a little more for it.

If you buy shares or bonds directly yourself, you may be charged commission by the broker you deal with or their income may be factored into the price you pay for the asset. For tracker bonds, the fees are usually factored into the structure of the product and is usually generated upfront by the provider. For unit funds, you may face some or all of the following:

- **Annual management fee:** A fixed percentage of the value of your investment fund that is taken by the provider each year to pay for managing the fund and other running costs.

- **Bid/offer spread:** The difference between the buying price and selling price, usually considered an entry cost.
- **Allocation rate:** The percentage of your investment that is used to buy units in a fund. A 98% allocation rate means that for every €100 you invest, €98 is invested and €2 is taken as a charge.
- **Early encashment penalties:** Most of these funds are designed to run your investment for five years or more. This is a fee you may be charged for any money you encash in the first few years. Typically, it reduces from 5% in year one to 1% in year 5.

It is important that you understand what the costs are – but what question do you ask? A good question is to ask what the net cost is, another is to ask what is the Total Expenses Ratio or TER.

The TER provides a way for the annual costs of running a particular fund to be covered. It takes all of the known costs associated with the fund's operation and expresses them as a single number, generally as a percentage, drawing its basis from the assets associated with the fund. TER includes the management, trading, and legal fees associated with the fund, as well as any audit costs or general operating expenses.

If there are upfront costs associated with your investment, less of your money will have an opportunity to grow. Annual costs limit the growth each year but it is important to remember that as growth compounds, higher costs limit the amount of your money that benefits from any growth.

ESG ("Environmental, Social & Governance Issues in investing) - Sustainability

We were able to answer a number of questions live but we thought we could clarify a few points further. This area has faced increasing levels of regulation and legislation in recent years. The most widely recognised regulation falls under the SFDR regime (Sustainable Finance Disclosure Regulations). SFDR aims to regulate how investment advice must disclose how sustainability and ESG are incorporated into recommended funds (or not). Funds described as "Article 8" consider the negative impact of investment decisions on ESG factors for example factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. These investments often promote environmental or social characteristics and invest in companies that follow good governance practices. They are sometimes called "light green" strategies. An "Article 9" fund or "Dark Green" Fund is a fund that has sustainable investment as its objective. Sustainable investments are defined in the Disclosure Regulations as any of the following:

- investments in economic activity that contributes to an environmental objective;
- investments in economic activity that contributes to a social objective and in particular an investment that contributes to tackling inequality, an investment fostering social cohesion, social integration or labour relations; and

- investments in human capital or economically or socially disadvantaged communities; provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance. Article 9 funds have higher disclosure requirements.

Property

Property always generates a lot of interest and questions on our webinars. It is an important part of the investment mix but some in this country can hold too much in this asset class. We continue to see merit in holding "bricks and mortar" but there may be value in considering a more diversified way of deploying your money e.g. choosing commercial property and particularly a more diversified spread of office, retail and industrial assets via a property fund. Property has its place in a portfolio but we have to consider that it can be illiquid (hard to access readily), may require gearing (borrowing) and can be cyclical (goes up and down with the economy). The property fund route doesn't eliminate all of these risks but it can reduce some of them. Some pension strategies allow you to invest in directly held property (not via a fund) but it is important that you get both pension and tax/legal advice before proceeding.

Bonds

Bonds can sometimes attract less attention than shares but should form an essential role in your investment strategy. We were asked a few questions on explaining bonds. Sometimes we call them bonds, also fixed income, gilts and credit. When a bond is issued an individual is lending money to the Government or to a company. In return the Government or company generally guarantees to pay a fixed amount of interest and to repay the original amount after a pre-arranged period. The interest is known as "a coupon." Once bonds are issued, most can then be bought and sold on the stock exchange - just like shares. Despite the fact that bonds like these usually pay a fixed amount of interest, the price of the bond will move up and down. It's not the rate of interest on the bond that will change, it is its attractiveness compared with other investments. So, for example, if ECB interest rates rise and a person can get a higher rate of interest, then the value of the bond with the lower interest rate will fall (and vice versa).

Historically, bonds have tended to be less risky investments than shares. However, that is not to say that they don't have risks of their own. There is always a risk (however small) that the issuer will default on the bond; this is especially true with bonds issued by higher risk/lower credit quality companies (so-called "junk bonds"). There is also some risk that the demand for a certain bond may fall. More importantly, however, because the bonds trade on the stock exchange and their price will vary, there is a risk of the return being less than expected if the bond is sold before maturity. The biggest factor affecting the price and therefore the return is the prevailing rate of interest.

Although some people do invest directly in Government bonds through stockbrokers, it is more common to invest in bonds as part of a managed fund. They are usually part of the mix of investments as they are seen as a way to diversify funds away from some of the ups and downs of equities. Stockbrokers usually charge a fee to buy and sell bonds.

Along the way, bond values would certainly have seen some ups and downs, but nothing like the level of variation you would have seen in a share portfolio.

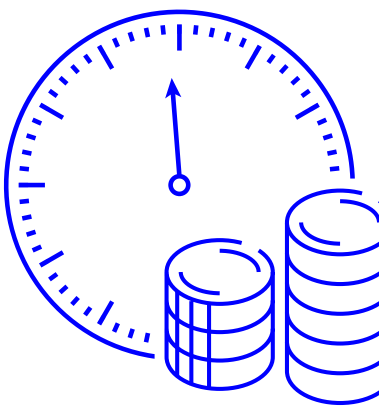
Investors tend to choose bonds as they like the promise of a fixed coupon every year and the promise of a return of a set amount at a fixed point in the future. All of these promises are predicated on the issuer being able to make those payments and the investor holding the bond to maturity.

For an Irish resident personal investor in Irish government bonds, the good news is that capital gains tax does not apply to any gains you make but any coupons or income are subject to personal taxes.

Exchange Traded Fund (ETFs)

We had a number of questions about ETF’s and we will try to cover the main topics raised. An exchange traded fund (ETF) is a type of investment that tracks an index such as the FTSE, a sector such as technology, a commodity such as oil, or another asset, but which can be purchased or sold on a stock exchange in the same way as a regular stock. An ETF can be structured to track anything from the price of an individual commodity to a large and diverse collection of securities. A well-known example is the SPDR S&P 500 ETF (SPY), which tracks the S&P 500 Index. ETF’s can contain many types of investments, including stocks, commodities, bonds, or a mixture of investment types. An ETF is a marketable security, meaning it has an associated price that allows it to be easily bought and sold.

Why investors like ETFs is that they can allow you to invest with a greater level of diversification with the liquidity that allows you to buy and sell like a share or bond. They can be bought through stockbrokers.



Security of investment

Our natural instinct is often to avoid loss and this can mean taking a risk-averse approach to investing. Sometimes people can confuse loss with a fall in value. In other words, a loss is generally something that is realised when you buy something and sell it for a lower price. Because many investments in shares and bonds are revalued on a daily basis, we get an idea of what they would realise if sold today. That is a valuation that may be higher or lower than what you paid to buy them. The key is that they generate a positive return for you over time and achieve your long-term investment targets.

The quest for security can induce people to pick more cautious strategies that may not achieve an adequate level of growth. However, for some, capital security is essential and there are strategies that offer this feature. There are a number of approaches that may be worth considering:

- Tracker bonds offer an opportunity to get returns linked to stock markets over a fixed term and with the advantage of a safety net of a protection of a percentage of your original investment, at maturity.
- Other strategies may offer a protection of a percentage of the highest value of your fund
- Many funds use wide diversification of the assets held to reduce risk. Typically for a category 3 fund (the level of risk on a 1-7 scale with 7 as the highest point), 30-40% of your money is invested in "real assets" (shares and property), while a category 4 risk strategy may have c. 50-60% in real assets. The remainder of your money is usually held in government and corporate bonds, cash and what are called alternatives (a wide universe of ways of investing which can include assets such as currencies, commodities, infrastructure and others that respond in different ways to stock markets.)

It is worth remembering that adopting a cautious approach over time may give you a smoother journey but you need to manage your expectations about growth, which is likely to be modest. It is also worth paying attention to what entity is providing that capital security - will they be around when your investment matures and will they have the capacity to repay your capital sum if required to do so.

To help you understand this trade-off, trade off between risk and reward, we recommend getting professional advice.

Commodities

We get questions on commodities on most of our calls now - maybe because our rising cost of living has encouraged us to pay more attention to them. It was impossible to answer them all on the webinar, so we will try to cover the essential topics that came through:

What is a commodity?

A commodity is a basic good used in commerce that is interchangeable with other goods of the same type. Commodities are most often used as inputs in the production of other goods or services. The quality of a given commodity may differ slightly, but it is essentially uniform across producers i.e. a barrel of oil is pretty much the same wherever it is produced. We depend on them for the basics of everyday life – for the electricity we use, the food we eat, the clothes we wear, the homes we live in and the transport we rely on.
Here are a few examples:

- **Fuel related commodities** – oil and gas
- **Agricultural/food related commodities** – wheat, cocoa and coffee
- **Hard commodities/precious metals** – gold and silver

Commodities are traded on exchanges. The price of commodities goes up and down for the conventional reasons of demand and supply. They can be impacted by political conflict, legal issues and even the weather. However, prices can also be subject to speculation which can cause some wild swings in values. Oil and gold are probably the most high profile commodity prices.

How Do I Buy Commodities?

Many ways of buying commodities offer liquidity i.e. you can trade them daily on main exchanges. Investors can buy commodities in a number of ways: they can physically buy them i.e. take delivery and store them for future use or sale.

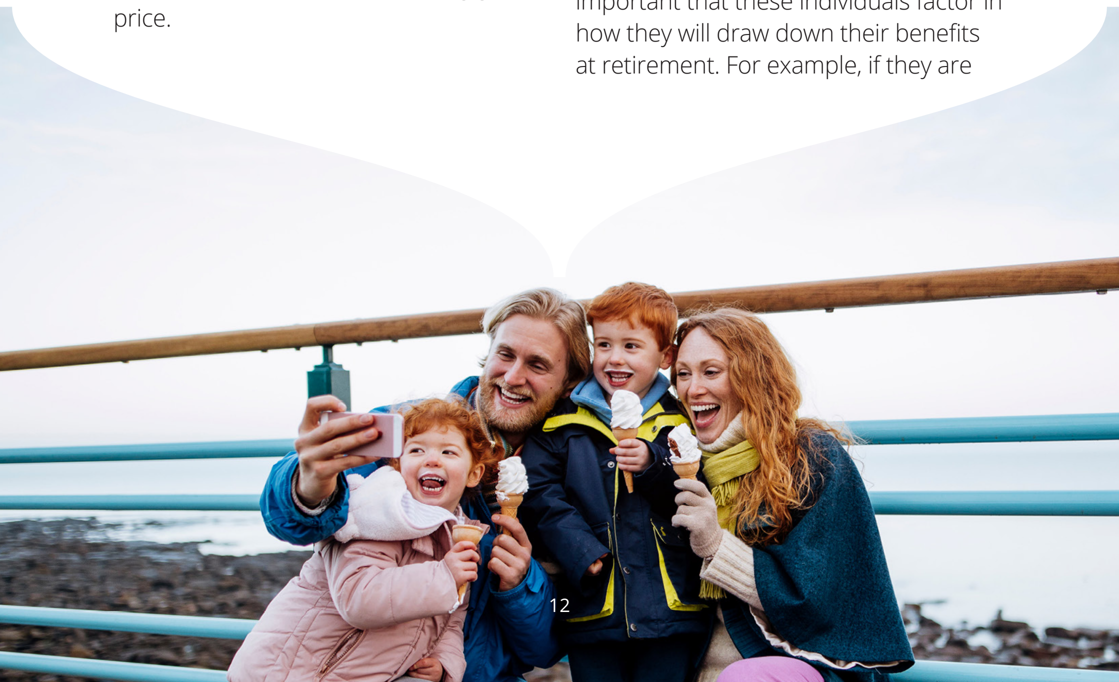
They can buy commodity futures which means giving you the right (but not the obligation) to buy a specified amount at a specified time in the future.

You can buy an Exchange Traded Fund (an "ETF") which gives you an exposure to a range of different commodities. For example, the S&P GSCI is a composite index of commodity sector returns representing an investment in commodity futures that is broadly diversified across the spectrum of commodities. The index consists of 24 commodities from all commodity sectors - energy products, industrial metals, agricultural products, livestock products and precious metals.

Finally, you can buy shares in companies who derive value from a commodity e.g. buying shares in a gold mining company which should benefit from a rising gold price.

Pension Related Questions

We will be running our next Pension Pot series later in the year but there is a wealth of information on **www.bankofireland.com/pensionpot**. Since our last pension webinar series, there have been quite a few changes to pension rules, particularly around PRSA's (Personal Retirement Savings Accounts). There are some very interesting opportunities to increase your pension funding but this is one where knowledge of Revenue rules is essential. It is important to get professional advice on this subject. We're here to help, you can talk to us about all your retirement planning needs. We got a number of questions about investing pension savings and AVCs (Additional Voluntary Contributions) and quite a few were from viewers who referred to a relatively short pension investment horizon. It is important that these individuals factor in how they will draw down their benefits at retirement. For example, if they are



going to draw down their entire pot of money as tax free cash in let's say 3 years, then investing is probably not a wise approach other than moving into a more cautious (but not risk free) strategy such as a Cash Fund. If they will draw down some tax free cash but leave more invested in an Approved Retirement Fund (or equivalent) then their investment horizon is not 3 years as the money will be invested possibly until they pass away. Their investment horizon in fact may be not 3 years but 23 or 33 years. In such circumstances, they will probably need investment growth to ensure that the pension pot can stay ahead of inflation and/or any money drawn down on an ongoing basis as income.

These are not straight forward questions and the answers inevitably are multi-faceted. Good advice from a professional is essential to help you to make the decision that fits your circumstances.

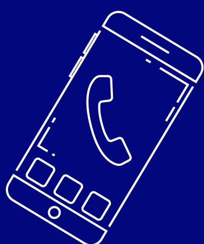
Next Steps

To find out more:

bankofireland.com/exploreinvesting

01 523 9813*

* Calls may be recorded for service, training, verification and analysis purposes.



Warning: The value of your investment may go down as well as up.

Warning: If you invest in this product you may lose some or all of the money you invest.

Warning: If you invest in this product you will not have access to your money until your retirement date.

Warning: Past performance is not a reliable guide to future performance.

Warning: These funds may be affected by changes in currency exchange rates.

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