Investing and Risk

This document contains an explanation of what is meant by the term 'investment risk'. It also explains some of the investment risks that can arise from investing in the range of funds offered by Bank of Ireland Life. Specific fund literature is available where we identify the risks that apply to an investment in that fund. For more information, please talk to your Advisor.

Key Information Documents

Under European Union legislation, Bank of Ireland Life is also required to prepare **Key Information Documents (KIDs)** and fund information sheets for our investment products and funds. A KID is a short document which will provide you with key features, risks and costs associated with the relevant product. It is designed to help you make a more informed decision on whether the product is right for you. Each KID follows the same format to enable you to compare investment products. Information includes the investment objectives, the type of investor it is suitable for, costs and the risk indicator for the product. These documents can be found on the Bank of Ireland Life website at **fundcentre.bankofireland.com/#KIDS.**

Investment Strategy and Risk

Depending on their investment strategy, each Bank of Ireland Life fund invests in one or a combination of the following underlying assets:

- company shares (referred to as equities)
- bonds
- commercial property and
- alternative assets such as commodities (oil, gold etc), infrastructure, private equity and hedge funds.

'Investment risk' arises from the fact that the value of these assets may go down as well as up over time. This can be dramatic, particularly over short time frames.

So Why Invest in These Assets?

Investment risks can be higher in the short-term. However, over the medium to long-term, investing in these types of assets can potentially lead to a much greater return than from deposits in cash. Investing in these assets can provide investors with an opportunity to 'beat inflation' and achieve other long term goals for their money.

Risk versus Return

Normally the higher the investment risk, the higher the potential return on that investment.

As an example, consider Irish Government bonds in the aftermath of the Global Financial Crisis of 2007/08. In order to attract investors, the Irish Government had to offer significantly higher returns on Irish Government bonds. Investors sought a higher return for taking on extra 'perceived' risk of the Irish Government not being in a position to repay the investors. That risk fell over the years after the crisis as the Irish Government bonds' credit rating has improved. However the potential return from the bonds has also fallen.

Investors should understand that risks exist, and be comfortable with the level of risk applicable to their investment. This approach should ensure that investors choose an investment that reflects their attitude to risk.

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

Bank of Ireland Life and Investment Risk

At Bank of Ireland Life, we believe that it is very important that investors understand the risks involved when they invest in any of our funds. That is why we:

- Undertake a rigorous risk assessment process to understand the risks associated with all of our investment and pension solutions
- Use a clear and easy to understand risk rating system to ensure that customers understand the risks of any investment.

Bank of Ireland Life's Risk Rating

This risk rating is based on a scale of Very Low to Very High Risk combined with a number rating of 1 to 7 – with '1' being Very Low Risk and '7' Very High Risk. This is illustrated with some examples of funds that sit in each of the risk categories:

Risk Description	Risk Rating	Fund Example
Lifestyling Funds		▸ IRIS ▸ Passive IRIS
Very Low Risk Funds	VERY LOW 1 2 3 4 5 6 7 VERY HIGH (1)	▸ Cash Fund
Low Risk Funds	VERY LOW 1 2 3 4 5 6 7 VERY HIGH (2)	▸ Currently no funds available
Low to Medium Risk Funds	VERY LOW 1 2 3 4 5 6 7 VERY HIGH (3)	▸ PruFund Cautious ▸ iFunds 3 ▸ PRIME 3
Medium Risk Funds	VERY LOW 1 2 3 4 5 6 7 VERY HIGH (4)	▸ PruFund Growth ▸ iFunds 4 ▸ PRIME 4
Medium to High Risk Funds	VERY LOW 1 2 3 4 5 6 7 VERY HIGH (5)	▸ iFunds 5 ▸ PRIME 5
High Risk Funds	VERY LOW 1 2 3 4 5 6 7 VERY HIGH (6)	▸ iFunds Equities ▸ PRIME Equities
Very High Risk Funds	VERY LOW 1 2 3 4 5 6 7 VERY HIGH (7)	▸ Currently no funds available

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Warning: These funds may be affected by changes in currency exchange rates.
Warning: If you invest in these funds you may lose some or all of the money you invest.

What Causes Risk?

There are many different factors that can cause the value of assets, mentioned above, to fall (which is the risk).

Below we explain a number of the different risks that can apply to our range of funds. Please note this is not an exhaustive ist but should give a broad indication of the different investment risks that exist. The fund literature for each fund identifies the particular risks that apply to an investment in that fund.

Market risk

This refers to the possibility that the value of an investment will fall because of a general decline in financial markets, due to one or more economic, political, or other factors.

Inflation risk

Sometimes known as purchasing power risk, this refers to the possibility that prices will rise in the economy as a whole, so the ability to purchase goods and services would decline over time. For instance, if your investment grew by 5% in one year, but the rate of inflation for that year was 6%, you would lose some of your purchasing power. This is a key risk for savers.

Interest rate risk (often referred to as duration risk)

This relates to how increases or decreases in interest rates can influence the value of another investment, specifically bonds. There is an inverse relationship between bond prices and interest rates. As interest rates rise, the price of bonds fall; as interest rates fall, bond prices tend to rise. If you need to sell your bond investment before it matures, you run the risk of loss if interest rates are higher than when you purchased the bond.

Reinvestment rate risk

This refers to the possibility that funds might have to be reinvested at a lower rate of return than that offered by the original investment. For example, a five-year, 3.75% bond might mature at a time when an equivalent new bond pays just 3%. Such differences can in turn affect the yield of a bond fund.

Default risk (credit risk)

This refers to the risk that a bond issuer will not be able to pay its bondholders interest or repay principal at the maturity date as originally promised.

Liquidity risk

This refers to how easily your investments can be converted to cash as there might not be buyers interested in your investment when you want to sell. Some investments may include the flexibility to withdraw liquidity for a period of time due to a reduced ability to sell an underlying asset for example property funds.

Political risk

This refers to the possibility that new legislation or changes in foreign governments can adversely affect companies invested in or financial markets overseas.

Currency risk

This refers to the possibility that the rates of exchange between currencies can change over time and could negatively affect the value of an investment.

Industry risk

Risks affecting a particular industry, like shortages of raw materials or changes in consumer preferences.

Counterparty risk

The risk to each party of a contract that the counterparty will not live up to its contractual obligations. This can be relevant for a secure investment where on maturity there is reliance on another party to repay an amount in full.

Borrowing risk

The addition of borrowing to a fund involves an increased degree of financial risk and may increase the exposure of the fund to factors such as downturns in the economy or deterioration in the conditions of the assets underlying its investments.

Concentration risk

This risk is the opposite of diversification. It can arise when an investment is spread over a small number of assets or within a specific asset. For example, with an equity fund that invests in a small number of equities, any fall in the value of one of those equities has a significant impact on the overall value of the fund.

Next Steps

For more information, talk to an Advisor available in your local Bank of Ireland branch:

Fund Centre

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Terms and conditions apply. Exit tax (up to 41% currently) applies to gains on life assurance investment policies. A Government levy (currently 1% of the premium amount) applies to all premiums paid to a life assurance policy.

While great care has been taken in its preparation, this document is of a general nature and should not be relied on in relation to specific issues without appropriate financial, insurance, investment or other professional advice. The content of this document is for information purposes only and does not constitute an offer or recommendation to buy or sell any investment or to subscribe to any investment management or advisory service.

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