Standard Life
Part of Phoenix Group

Beginners guide to smoothing

There are a number of different smoothed funds available in the market and each works in a different way. We've designed this document to help provide you with a simple explanation of what smoothing is and how a smoothed fund could help shelter your investment from some of the day-to-day ups and downs of the investment markets.

Seeking growth in uncertain times

Many people choose to invest as it can offer greater potential for their money to grow than typical savings accounts, which usually only earn interest. Although past performance is no guide to future performance, investing can offer more potential for growth than a savings account over the medium-to-longer term (usually five years or more).

It's important to note your money is generally safer in a bank or building society, whereas there are greater risks to investing in markets which can react to external events almost instantly.

We are living in uncertain times and have seen the effects that global conflict, political uncertainty and rising prices can have on our savings and investments. As a result, you may be seeking some shelter against the uncertainty of investing.

So if you're approaching retirement, already retired, or simply looking to reduce some of your investment risk, a smoothed fund could help you to grow your retirement savings. It is designed to smooth some of the day-to-day ups and downs, while offering the potential to deliver steadier income in the future.

What is a smoothed fund?

Smoothed funds are designed to provide long-term growth while helping reduce the worry of investing. They do this by holding a range of different investments aiming to smooth out some of the daily ups and downs of investing – so are not risk free.

Smoothed funds are typically multi-asset funds, which means your investment is spread across different asset classes like equities (stocks and shares), bonds (loans to a government or company), and money market instruments (including cash) in different geographical locations, such as the UK, Europe, the US and Japan.

This way of spreading your money helps to ensure it is never over-exposed to risk in any one area – so you aren't 'keeping all of your eggs in one basket'.

Unlike other funds, smoothed funds undergo a smoothing process, which aims to shelter your money from some of the daily uncertainty of investing.

How does smoothing work?

Smoothing is designed to cushion daily ups and downs – aiming to give you long-term growth.

There are a number of different approaches to smoothing. An example of how this could work can be seen in the chart below.

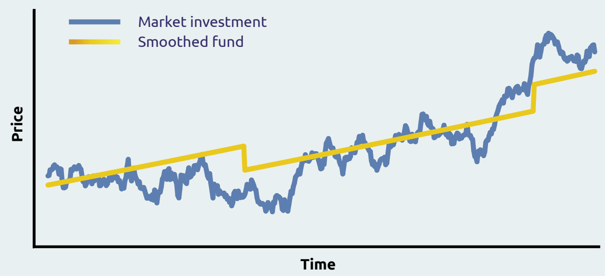
The blue line shows how prices can move up and down each day in line with the movement of markets.

The yellow line is one example of how smoothing can work. As you can see the line steps up and down but doesn't experience the same fluctuations as the blue line – smoothing out the ups and downs of market movements.

So even though you may not benefit from the full growth of the market, smoothing can shelter your investment from some of the market downturn.

There may be times when the value of your fund could fall, sometimes frequently, or significantly. For example, if there are sustained falls in the investment markets over an extended period of time. So while the fund smooths out some of the daily ups and downs, it doesn't provide any guarantees.

Market investment versus the aim of a smoothed fund



This graph is for illustrative purposes only.

Remember, investing carries more risk than saving in a typical savings account.

Smoothed funds typically:

- Help smooth out market ups and downs
- Spread your money across a range of different investment types and geographical locations – making sure you're never over-exposed to risk in any one area
- Do not provide any guarantees that you will get back the value that you paid in
- Are not risk-free
- Aim to provide growth over the long-term
- Can help you build and consolidate your pension savings
- Provide the potential for a more consistent level of regular income compared to funds that don't offer smoothing

Helping you plan a better retirement

If you're saving and investing for retirement, already retired, looking to grow your investments, planning to take an income in later life or simply hoping to reduce some of your investment risk, talk to your financial adviser about smoothed funds.

The value of an investment can go down as well as up and you may get back less than was paid in.

The information here is not financial advice. For further information, please speak to your financial adviser.

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