



Association of British Insurers

Research into presentation of  
**RISK AND  
RETURN TO  
CONSUMERS**

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## 1. SUMMARY

### 1.1 Introduction

- This research explores how best to present information on investments to consumers so as to improve their understanding and encourage reasonable expectations. More specifically, it looks at the presentation of risk and reward for consumers, including consideration of alternative approaches to the existing UK projections regime.
- The research was conducted in two phases. The first (qualitative) phase comprised of focus groups and face-to-face interviews with consumers. In addition, 8 face-to-face interviews with financial advisers were undertaken. The second (quantitative) phase took the form of a 20 minute online questionnaire, completed by 537 consumers.

### 1.2 Consumer context

- The research confirmed a number of previous findings regarding the presentation of information about investments.
- It also found that consumers' ability to extract and understand financial information accurately remains disappointingly low and that they struggle with complex concepts, tables or graphs.

### 1.3 Overview of presentation of risk and return

- The risk and reward indicator was welcomed, and the core message clearly understood. 82% of consumers found it quite useful or very useful. It is an extremely helpful way of communicating 'at a glance' risk comparisons.
- Past performance was seen as a key indicator of volatility and therefore reinforced the message that capital may be at risk. Just under 80% of consumers found past performance quite or very useful.

### 1.4 General commentary on design of disclosure document

- Four approaches to presenting information about investments were tested - a template version modelled on the UCITS Key Investor Information Document (KIID) and three other variations with different presentations of projections information.
- The KIID is a popular format- 70% of consumers who saw the template (no projections) version found it useful or very useful.
- However, there was a desire to see projected returns. In the qualitative research, consumers asked for projections when they were not included, and found them useful when they were.
- Only the more sophisticated consumers were comfortable without the projections.

- Whilst consumers appreciate that projections are indicative (at least in principle), they are nonetheless considered a helpful indicator of how the investment may perform.
- All of the materials tested were seen to be of a fairly high quality (vs. consumer expectations of generic financial information), with relatively simple wording, good explanations, reasonable length and a clear layout that facilitated understanding.
- All versions of the documentation clearly conveyed that capital was at risk and that outcomes were uncertain.
- All versions of the material gave consumers a good sense of what their potential returns might be, whilst communicating the uncertainty around the figures. The majority of consumers correctly understood that it was probable, but not certain, that their returns would fall within the specified range.
- However, the inclusion of projections does carry a risk of consumer misunderstanding.
- For all versions with projections, less than one third of consumers were able to correctly answer questions about the returns they could expect after a certain time and over half struggled to answer a question designed to test their comprehension of the materials.

## **1.5 The alternative presentation approaches**

### **1.5.1 No projections information (Template pages 1-2)**

- The template communicated key messages clearly in a relatively easy to digest form.
- Core messages of volatility and uncertainty were conveyed through nomenclature, warnings, and the past performance graph.
- Risk was also clearly communicated, primarily through the use of the risk and reward scale which makes comparisons easy. However, the past performance graph also contributes to this.
- There was enough information on the template version for more sophisticated consumers to make a decision, and for advisers to use it as a basis for discussion but most respondents wanted to see projections as well.
- The absence of projection information seemed to encourage over optimism regarding outcomes and less strongly communicated the effect of term.

### **1.5.2 Following FCA guidelines and including projections information (Deterministic pages 1-3)**

- The projections were widely seen as a useful additional layer of information, even among those who saw the template as adequate.
- They reassured consumers by providing clear monetary values but were occasionally misunderstood.

- The inflation message was often missed and, as a result, growth potential was unattractive and, for some, off-putting.

### 1.5.3 FCA guidelines and including enhanced information (inflation wording, warnings, graph) and projections information (Deterministic Plus pages 1-4)

- For respondents in the qualitative research this was, overall, the preferred version. In the quantitative research 75% of consumers found it the easiest version to understand compared with 67% for stochastic and 68% for deterministic.
- It is a familiar format which shows projections in an expected way. Yet this version also adds additional information.
- The inflation message was clearly conveyed and seen as a useful reminder- both for those to whom this was new information and those who already knew about the impact of inflation.
- The 'example only' nature of the projections was conveyed more clearly than in the deterministic version and it was more likely to be read.
- The graph adds little further information/ understanding. It is neither clear nor informative as presented, although it does add a degree of visual interest.

### 1.5.4 Alternative approach including projections information (Stochastic pages 1-4)

- In the qualitative this was the version consumers stated was most useful and the quantitative research found it was the most effective version at communicating:
  - how an investment might perform e.g. the probability of different outcomes
  - the risk/ potential for loss
  - the uncertainty of outcome and
  - the importance of term on an investment.
- It was also the version consumers found most visually interesting.
- However, it also triggered polarised responses, particularly in the qualitative research. Some consumers found it harder to absorb, especially those with low levels of financial sophistication. Others found information on the probability of outcomes to be useful – an enhancement on the limited information in the deterministic versions.
- The projection graph is powerful but divisive:
  - It does convey more information about certainty and range of potential outcomes (including the potential for loss) but it is difficult for some to understand
  - Others require significant concentration to work through the graph and correlate it with other information given in both the text and table
- The table used in the qualitative research was confusing both by itself and in conjunction with the graph.

- It would benefit from further research to test whether alternative formats (e.g. deleting the table or using an interactive approach), would improve engagement with the information.

## **1.6 The view of advisors**

- In contrast with consumers, advisors were generally wary of including projections in disclosure documents. They saw a risk that the figures may lead to unwarranted expectations of returns, that the “smoothed” nature of projections downplayed volatility and that consumers may misunderstand the information.

## 2. RECOMMENDATIONS

### 2.1 Design/ look and feel

- The UCITS Key Investor Information Document (KIID) is a good format to adopt for point of sale material.
- Disclosure documents should be no more than four pages (ideally two or three).
- They should adopt a clear layout with plenty of white space and obvious/ intuitive reading direction and introduce navigational cues where necessary.
- They should also introduce visual interest to break up the text and figures e.g. clear/ unambiguous graphs and tables.
- Firms should use clear and unambiguous language, with immediate and clear/ layman's explanations of any unavoidable technical terminology used.

### 2.2 Information content

- The inclusion of projections information is helpful and, on balance, there are more benefits than drawbacks.
- Whilst including projection information can encourage some to interpret the figures as guarantees, leaving out projections:
  - Can lead to over-optimism on the part of consumers (both in terms of potential outcome and term)
  - May cause some consumers to be over-cautious both in choice of vehicle and fund
  - Is questioned- and doesn't meet consumer's needs- the projections are missed
- When using inflation adjusted figures documents should:
  - Ensure it is made very clear that this is what is being done and consistently reinforce this throughout the documentation to ensure consumers' continue to interpret the figures in context
  - Provide adequate text on the impact of inflation over time, to ensure that this is understood, and also noticed and thus understood to apply to the projections
- Not making it sufficiently clear that figures have been inflation adjusted can lead to the message being missed, and the consequent view that the projected returns are unexpectedly low.
- Documents should provide some explanation as to how projection figures are calculated and the role of an independent regulator in setting the requirements.

- If possible, documents should draw comparisons to alternative vehicles (savings etc.) and make clear that their advertised rates are not inflation-adjusted.

### **2.3 Presentation of projections information**

- On balance, the deterministic-plus version was the best at communicating ‘in the round’, imparting details in a consistent and comprehensible way.
- Ideally, disclosures should go beyond the FCA’s minimum requirements by adding additional information and explanation about inflation and a projections graph.
- Warnings should be strengthened with a clear (e.g. emboldened) statement that they are only examples within immediate proximity of the projections themselves.
- Static presentations of stochastic projections are confusing for some. Whilst they provided information which some respondents felt was more useful than anything else they were shown, they are confusing for others and therefore are more open to misinterpretation.
- There is merit in including stochastic projections for use by an adviser or for consumers who feel confident engaging in this approach.

## 3. REPORT BY STRICTLY FINANCIAL

### 3.1 Regulatory Context

As part of the Conduct of Business Rules (COBS), the FCA<sup>1</sup> prescribes the maximum rates of return that financial services companies may use in their calculations when providing retail customers with projections of future benefits for investment products. These requirements were introduced to provide consumers with an indication of what they might receive back from an investment, and to help 'level the playing field' between providers so that it is easier to compare product charges, and to see how charges could affect returns, before deciding which product is most appropriate for their needs.

In November 2012 the FCA announced that it was amending its rules on the calculation of projections. From 2014 firms will be required to calculate an appropriate intermediate rate which must be accompanied by flanking rates of +/- 3%, subject to a maximum of 2%, 5% and 8% (reduced from 5%, 7% and 9%). The FCA has also reviewed the way in which the effects of inflation on longer term savings should be communicated, and decided that, from 2014, firms must further adjust the rates for pensions to account for inflation of 2.5%.

The FCA's review of projection rates has created discussion in the industry. Some commentators feel that the new rates do not offer sufficient flexibility to cover the wide range of investments/ performance rates. The ABI felt that the FCA review did not go far enough, with a more fundamental review into the way future investment returns are projected in illustrations being required. The current system of using deterministic projections has an inherent problem – they can never accurately predict the rates that investors will receive and are accused of being too simplistic. On the other hand, alternative approaches, such as stochastic forecasts may enable providers to show a wider range of outcomes and the probability of achieving a particular goal.

Over the past few years, the ABI has conducted several pieces of research into the savings and investment market. This research has identified that people do want to save more in a variety of products, and that this is true across the generations (ABI Quarterly Consumer Survey 2011 Q4) – however, it is not happening in reality because people do not feel that they have sufficient spare cash. In 2010 (Research Paper No 25) the ABI looked at the issues surrounding standardisation of risk disclosure, and in 2011, identified that the perception of risk is a key factor in decisions about investing and fund choice (Research Paper No 27) – people need to assess the risk of the different options available, and the trade-off of risk and return will depend on the time horizon of the investment.

Projection figures are open to misinterpretation by consumers, both in terms of the scale and certainty of the expected outcomes. However, research has also shown that consumers welcome projections and find these helpful when making key investment decisions. The issue is not just about whether projection figures should be used but, if so, how they are used/ presented to ensure that they help consumers make better/ more informed decisions and do not make faulty assumptions about the investment.

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<sup>1</sup> On April 1<sup>st</sup> 2013 the part of the FSA which dealt with consumer issues was replaced by the FCA. This occurred during the period of this research project. In the interests of simplicity, rather than refer to the FSA prior to April 1<sup>st</sup> 2013 and the FCA after this date, all mentions of both bodies in this report will refer to the FCA.

Research by the ABI (Research Paper No 25, 2010) has shown that pictorial presentations of investment risk are generally more effective than purely text based description and can improve people's ability to pick the right investment by over 20%, and that design is crucial to effectiveness.

The European Commission is continuing this debate on the future of point of sale documentation. In 2012, it released proposals on the presentation of information about packaged retail investment products (PRIPs), based on the Key Investor Information Document (KIID) developed for UCITS investments. The objective of the Commission is to create a consistent and level playing field for all packaged retail investment products, ironing out competitive distortions due to inconsistent disclosure standards. The proposals are currently in discussion in the European Council and Parliament.

The UCITS KIID, on which the PRIPS disclosure is based, sets out essential characteristics of a fund or share class so that investors understand the nature and risks of the fund being offered. Importantly, the Risk & Reward Profile includes a "synthetic risk and reward indicator" (SRRRI), which is a risk category calculation based on volatility of returns. The indicator is presented on a numerical scale of 1 to 7, where 1 is low and 7 high. Projections were not included in the UCITS KIID but may form part of the disclosure document for PRIPs.

## 3.2 Research objectives and methodology

### 3.2.1 Research objectives

The ABI wishes to use this research to help influence and inform both UK and European regulators regarding the approach to the provision of pre-contractual disclosure information to consumers. This includes understanding how best to use and present information that will improve consumer understanding of their investment and encourage reasonable expectations, and helping insurers make changes to implement new FCA requirements.

It also involves considering the presentation of risk and reward for consumers, including consideration of alternative approaches to the existing projections regime.

The specific research objectives were to:

- Develop alternative approaches to presenting information on risk and reward, taking into account existing research/ knowledge and directly addressing weaknesses of the current regime.
- Understand what consumers want from pre-contractual information and how they use it (both in an advised and non-advised context).
- Test the various approaches with consumers to assess ease of comprehension, accuracy of understanding and the effect on decision making, and to compare the performance of the alternatives against each other, and against the status quo.
- Identify the most effective execution for conveying accurate projection information.
- For each alternative, specifically:
  - Explore whether the approach includes the type of information that consumers want
  - Examine whether, and how, its presentation aids engagement, understanding and comprehension
  - Understand what messages are being conveyed about the nature of the investment, and the associated risk (including potential for short term loss and the impact of term on the investment)
  - Understand what consumers believe about the (un)certainly of return, given the projection figures
  - Identify what information is aiding consumer decision making and how (does it help consumers decide whether, how much and how long to invest for)
  - Understand how this information sits within the other point of sale information provided, which (at least from the provider) may be more ‘upbeat’ in its presentation

### 3.2.2 Method

There were four stages of research:

- Development of test materials:
  - Development of template version consisting of two pages of baseline information (and included solus, and in every other version tested)
  - A version based on existing FCA guidelines (deterministic), an enhanced version (deterministic plus), and a version employing a radically different approach (stochastic)
  - These were designed to test the value of including projections information and the efficacy of the different approaches to presenting risk and return information as a whole
- Qualitative consumer and adviser research.
- Refinement of the test materials using the learnings from the qualitative research.
- Quantitative consumer research.

The qualitative consumer research comprised 12 group discussions with consumers of low-to-mid financial sophistication and 12 face-to-face depth interviews with consumers of higher financial sophistication. The groups lasted for two hours, and the in-depth interviews for one hour. The consumers ranged in life stage from pre-family to retirement, and all had invested within the past year or intended to within the next three months. All of the interviews and groups were held in London, Birmingham, Bristol and Manchester.

In addition, eight adviser interviews were conducted, one with a restricted firm and seven with independents, which between them had a mix of regional and national coverage. Investment business accounted for the bulk of their turnover, typically 70%-90%, with much of the remainder coming from pension business. Clients varied widely in both age (from young middle age to at or in retirement) and financial sophistication.

The quantitative research took the form of a 20 minute online questionnaire, which was completed by 537 consumers, again reflecting a range of age, geography and financial sophistication. Unlike the qualitative research which had an even split of male and female, the quantitative research was biased slightly towards men, reflecting current market trends in purchasing investments. The quantitative research sample was split into four approximately equal sub samples as set out below, each of whom saw a different version of the stimulus and answered a bank of common questions. Each individual saw both a low risk and higher risk fund example of the stimulus to help assess how easy or difficult they found it to distinguish between the two and/or select the fund that was most appropriate to them.

All respondents in both research phases were the main or joint financial decision maker, aged between 22-70, and:

- Had taken out/invested in a qualifying product in the last 12 months, or were seriously considering investing in a qualifying product in the next three months:
  - Equity ISA
  - PPP/SIPP

- GPP
- Unit trust/ OEICS/Investment Trust
- Stocks and shares

The four separate quantitative research samples broke down as follows:

- Each sample saw a single version of the stimulus, either:
  - No projections information - Template: 132 respondents
  - FCA requirements - Deterministic: 141 respondents
  - Enhanced FCA requirements - Deterministic Plus: 138 respondents
  - Alternative approach - Stochastic: 126 respondents

Two investment iterations were rotated across the sample:

- Mixed Investment 40% Shares
- Mixed Investment 80% Shares

Stimulus was shown as PDFs, and respondents were able to spend as long as required reading it, though a minimum time was imposed. Respondents were able to refer back to the stimulus throughout the questionnaire.

### 3.3 Development of stimulus

The stimulus was developed in two stages. The first of these involved drafting an overall template which would be used as the basis of every version presented. It would be tested on its own, and then with three alternative versions of supplementary material, showing different presentations of possible future returns (projections). The research did not assess variations of each alternative as it was felt that testing too many versions would result in respondent fatigue.

The design of this stimulus took into account findings from previous research studies on pre-contractual disclosure regarding the need to keep length to a minimum, the use of lay language wherever possible (and offer clear and readily accessible explanations where the use of technical terms was unavoidable), and to take into account the visual strengths of graphic presentation while catering for the parallel consumer need for clarity of numbers.

In light of the on-going debate in Europe on the development of a pre-contractual disclosure document for PRIIPs, it was decided that the stimulus should follow the format of the UCITS KIID, as this is the basis for the PRIIPs document. It was also decided that the key overall descriptor would be 'investment', rather than 'bond' or 'pension' to mitigate the extent to which respondent's pre-conceived ideas about products influenced their responses.

The scope of the research did not extend to consider the use of different types of information at other stages of the financial planning process (either pre-sale or post-sale). Nor did it specifically consider any necessary additional information for consumers saving for their retirement or drawing income from their products.

Two investment disclosures were designed, one with 80% in equities and the remainder in cash and bonds, and the other with 40% in equities and the remainder in cash and bonds. This was to reflect the different risk appetites of consumers with varying levels of wealth and age, as well as financial sophistication. It was also decided that in setting the rates, the ABI would apply the anticipated FCA rules regarding projections e.g. using flanking rates of +/- 3% and adjusting for inflation.

Moody's Analytics (formerly Barrie & Hibbert) provided the ABI with economic and asset return data, based on their widely used economic model – the Economic Scenario Generator. The model was used to generate 5000 scenarios for the following variables:

- UK Gilt Yields (15 Year Zero Coupon)
- UK Inflation Index
- Cash returns
- UK Gilt Index returns
- UK Equity Index returns

The ABI used this economic scenario data as a basis for setting consistent and realistic projections in the different versions of the KIID, projecting the value of a single premium £1000 lump sum investment, based on the two portfolio combinations:

- 40% Equities/60% Bonds and Cash
- 80% Equities/20% Bonds and Cash.

The figures were then adjusted to allow for charges of 0.75% annually.

To provide comparability between the different versions of the stimulus, the ABI identified the midpoint from the scenario data (50% chance of value being above or below stated figure) for both portfolios at 1, 5 and 15 years. This was then used as the middle rate of return for the deterministic projections and adjusted +/- 3% in line with FSA rules, to provide the lower and higher rates of return.

The focus of the research was on the presentation of projections. It was not intended to test or evaluate the methodology for calculating the projection rates.

The findings from the qualitative research included comments on certain aspects of the stimulus, which were concerned with visual and similar presentational issues, and which were relatively easy to correct without affecting the core content of the different versions. As a result, minor enhancements to the stimulus were made before the quantitative phase of the research.

The research findings below deal with the substantive output from the research as a whole.

## 4. MAIN FINDINGS

### 4.1 General consumer attitudes and behaviours to investments

#### 4.1.1 Summary

Consumers bring a plethora of preconceived ideas and understanding to the investment decision, some of which are more helpful than others. Investments are clearly an area that consumers find challenging – and even more so in the current uncertain economic climate – and this means that consumers are falling back on their existing frameworks of attitudes and behaviours to help inform their decision making.

Consumers are both wary of investing and acknowledge that basic savings rates are at all-time lows – which leave them uncertain what to do. Estimating risk is a key issue (both in terms of risk to capital and investment risk).

#### 4.1.2 Levels of knowledge and use of advice

Half of consumers feel that they have a good level of financial knowledge, but only half of these feel that they have a good knowledge of investments specifically. A third of consumers are less confident about their financial knowledge generally (and find investments even more challenging), and only 14% of our sample considered themselves to be ‘experts’ both generally, and specifically when referring to investments.

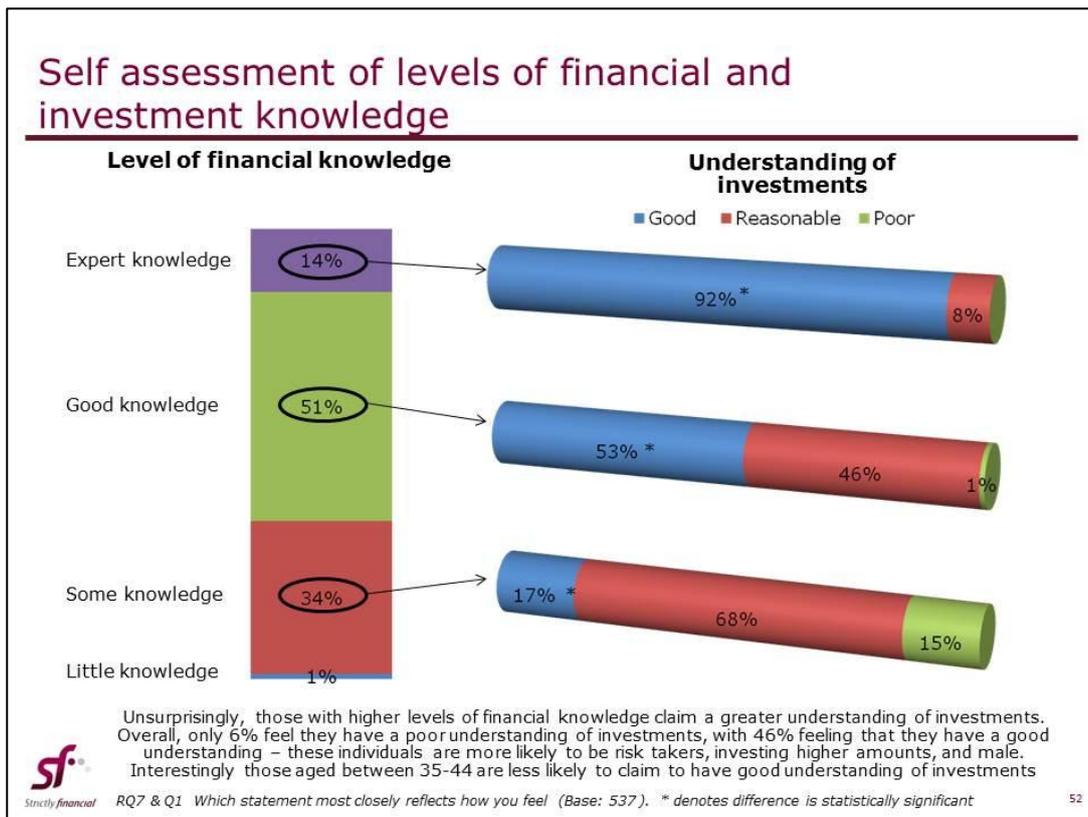


Figure 1: Self-assessment of levels of financial and investment knowledge

In the current economic climate consumers are generally wary of making investments. Against a background of declining trust in both the industry and the efficacy of investment vehicles, they perceive opportunities for growth as being limited and hard to identify, while at the same time the perceived potential for loss has broadened. But the view emerged that obtaining adequate returns requires a willingness to take greater risks than in the past. The consumer response to this took two forms:

- Being prepared, albeit often reluctantly, to take this risk.
- Deciding the risk was not worth it and that it would be better to leave the money in cash.

In broad terms, there was an unsurprising and overarching tendency for those with less investable money to claim lower levels of financial knowledge and to be generally more conservative about investment. However, two thirds of our sample claimed to have an open mind when it came to risk, and just over a tenth classed themselves as risk takers.

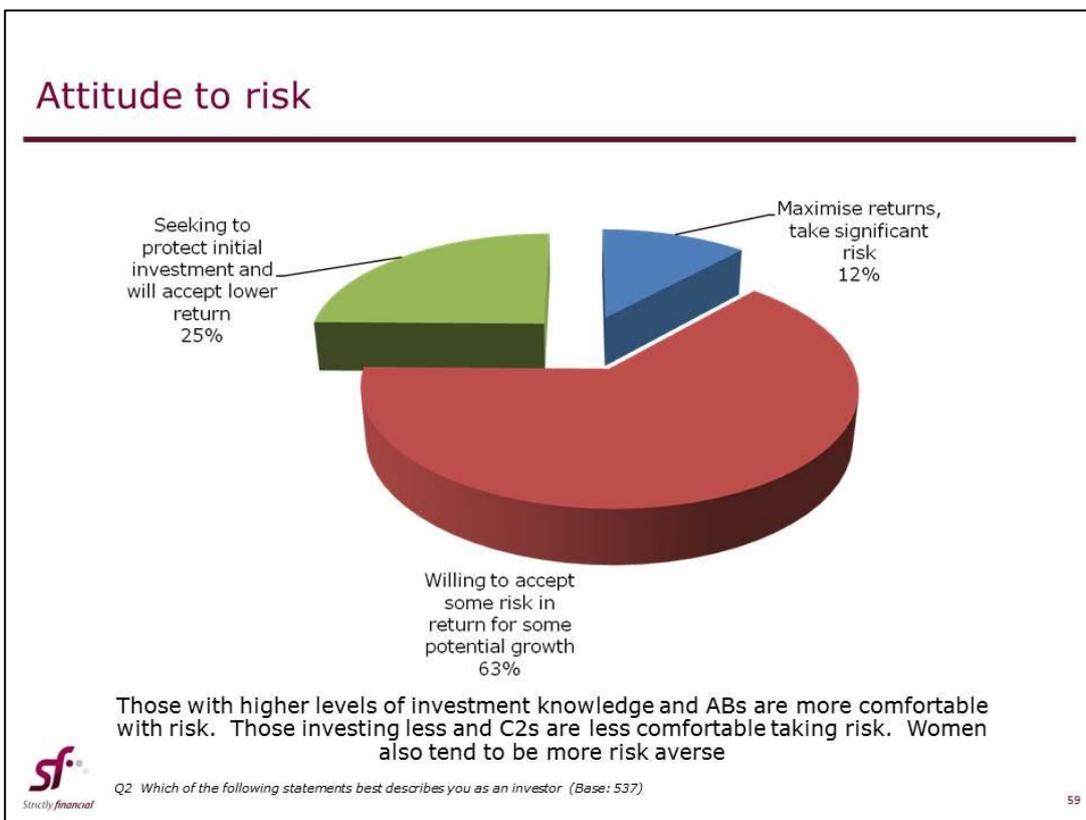


Figure 2: Attitude to risk

This confidence and risk profile is not unexpected and reflects other work conducted, notably by the FCA, in this area.

Consumers state that the charges, risk to investment capital and how much money they may make are the most important factors when selecting the investment. Unsurprisingly for those who use an adviser the recommendation of this professional also has a significant effect. Of least (although still high) importance are the fund manager, future projections and the investment strategy – all of these aspects are more complex and esoteric investment concepts.

Generally, the more sophisticated consumers were more comfortable with direct share purchase and smaller/shorter term collective investments (typically under 5 years), where poor performance was seen as less damaging to their overall financial well-being. They were less comfortable with larger and longer term investments, including pensions. They tended to do some of their own research prior to investment, including reading the press and taking informal advice, but were more inclined to seek professional advice for larger investments, usually from an independent adviser.

In comparison, the less sophisticated consumers were more comfortable with interest-based products like deposit accounts and cash ISAs, where they were prepared to do their own research (typically on the internet using Best Buy tables and comparison sites). They were less comfortable with investments generally, including over the short to medium term as well as pensions. For investments they would rely heavily on professional advice, and this was often through a bank rather than an independent adviser.

Both more and less sophisticated consumers typically used a number of advice and information sources.

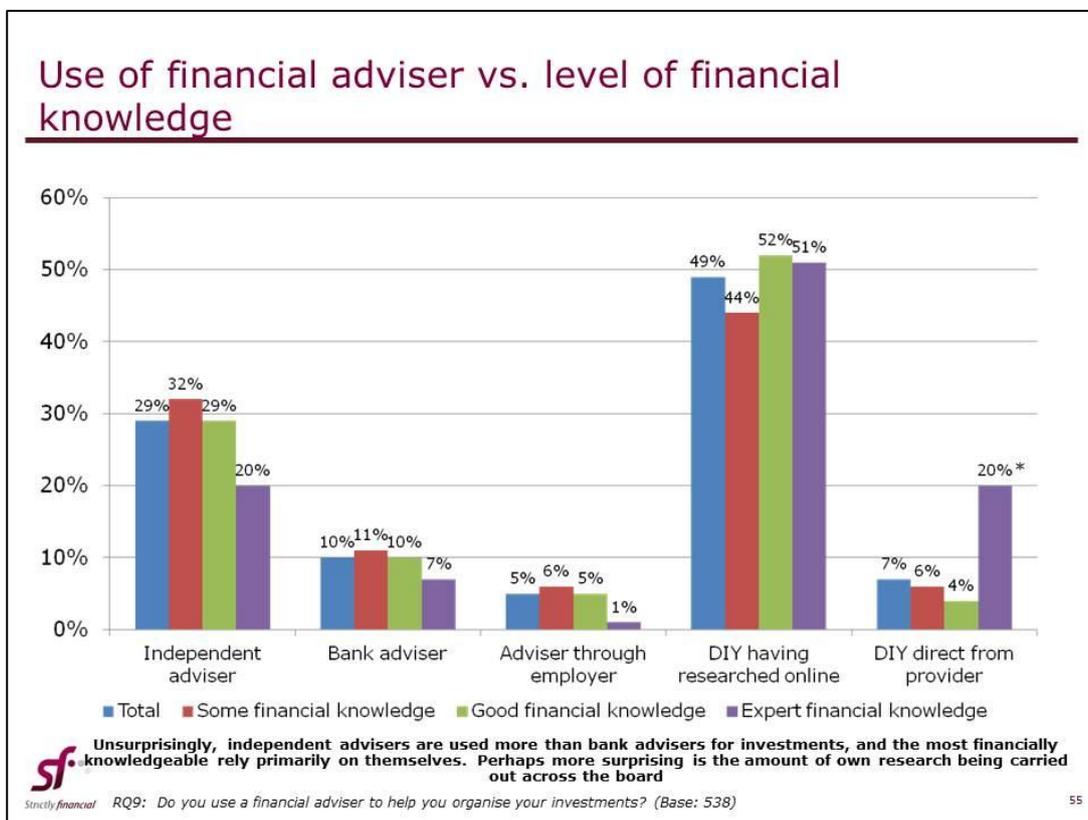


Figure 3: Use of financial adviser vs. level of financial knowledge

The less sophisticated relied more heavily on professional advice, typically from a bank but sometimes from an independent adviser, while the more sophisticated tended to do a lot of their own research, quite often in parallel with seeking professional advice rather than relying entirely on the adviser.

### 4.1.3 Common assumptions and mis-perceptions

The less sophisticated were more prey to prejudices, assumptions and misapprehensions than the more sophisticated. They tended to have a poorer understanding of investments and of the differing roles of, e.g., an adviser and a fund manager. They often assumed that fund managers had more discretionary control over the investment than is the case in reality, and several took the view that advisers did little more than look up the investment equivalent of a Best Buy table when making a recommendation. The more sophisticated did not share these views.

There was a widespread tendency to underestimate the effect of inflation, and financial advisers made the same point about their clients: even where they were well aware of how inflation erodes the value of savings, they were inclined to underestimate its full impact. Among consumers there was a reasonable understanding of inflation in principle, but it was seen more as a long-term issue affecting pensions than as something to be taken into account with other types of investment. Cash was widely seen as safe up to the level of deposit guarantees, and the impact of inflation on cash savings was not generally considered. Overall, inflation is much easier to appreciate when it is considered in hindsight (rather than foresight) and is seen as long term and outside the consumer's control. This powerlessness means that consumers tend to fail to incorporate it in their thinking.

Unsurprisingly given the range of the sample, understanding of investment products and their associated documentation varied widely: what some saw as basic information came as new to others, and anything not spelt out very clearly in the stimulus was prone to being misunderstood by at least some of the sample. In some cases assumptions and misapprehensions were applied to the documents in the face of copy that stated otherwise.

### 4.1.4 Consumer understanding of risk

As mentioned above, inflation was not widely seen as a real risk except in the context of pensions. Instead, consumers tended to see risk in terms of loss to the capital investment sum, or to growth (e.g. if the market turns down after rising for a while).

Risk to capital was the primary investment worry, and this was heightened by the current economic uncertainty. The concern was that an investment could simply fall in value from the outset and, at worst, be lost.

Second to this was the perceived risk to growth. Consumers were very aware that the market is generally performing badly, and that reliable growth is therefore hard to find. At the same time the perceived volatility of the markets meant that growth gained cannot be relied on, as it could be followed by a fall in values, possibly wiping out the previous growth. Steady, reliable growth that did not require constant monitoring and action on the part of the investor was seen as something largely unavailable in the current economic circumstances.

Some of the more sophisticated investors specifically mentioned inflation as a reason for investing rather than simply saving, and spontaneously recognised the possibility that their investment returns would fail to keep pace with inflation. However, this was a minority view.

There was a widespread view that these are times of high economic risk generally, with the effect that not only were investments at risk of market downturns or even crashes, but that savings were at risk of bank failure and income was at risk through loss of job security.

**“The right balance of risk and return depends on how much you are investing. You are more willing to risk a smaller amount. You'd take a risk with £300 that you wouldn't with £3,000” (Mid-high sophistication, BC1, pre-family)**

“I want to know how much risk is involved generally, how much risk there is of losing my money” (Low-mid sophistication, C1C2, pre-family)

## 4.2 Generic learnings from the stimulus

### 4.2.1 Summary

The findings from this research confirm previous thinking on best practice for the presentation of financial information. The documents need to be as short as possible and written in clear English, though even the clearest and most explicit communication might be misunderstood by some. They need to be made as engaging as possible, preferably through the presentation of at least some information in graphic form. Large banks of text are likely to be skipped over at least in part, especially if they contain much technical language. Technical language needs to be avoided, or if it is necessary immediately explained in layman’s terms.

Layout is important, both in guiding the eye and in leaving adequate amounts of white space: densely packed information is unengaging at best and impenetrable at worst. Documents should contain navigational cues to help the reader negotiate through the information in a logical manner.

### 4.2.2 Presentation of complex information

Most people find fact-based financial services documentation dull and impenetrable, and research has shown their willingness to engage with it is limited.

“The documentation is quite useful, but it’s usually hard work. That’s what you want an adviser for” (Mid-high sophistication, BC1, young family)

Key elements influencing this include layout, language and length. The stimulus for this project was designed with that in mind. Overall, the test documents were received extremely well, with respondents being pleasantly surprised at their length (reasonably short) and clarity. This was unexpected – people expect financial documentation to be lengthy and impenetrable, and the test documents made a refreshing change.

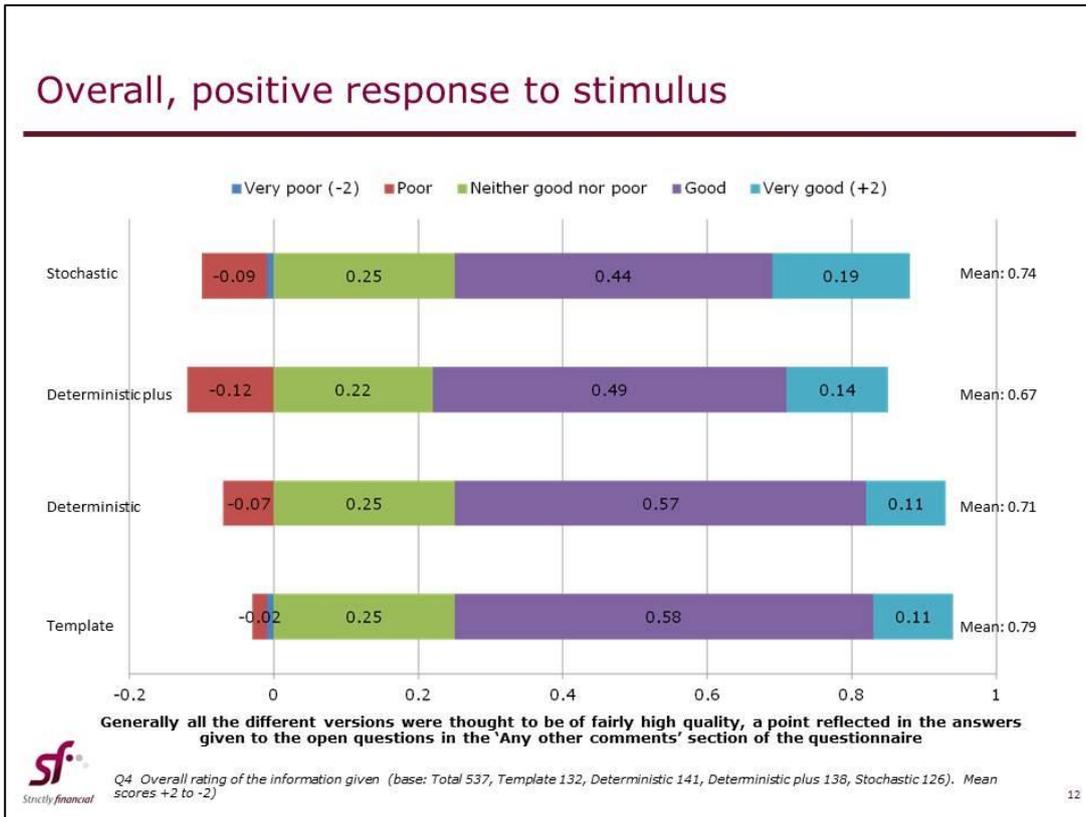


Figure 4: Overall response to stimulus

The above chart shows that in every case around two thirds of respondents rated the test documents as good or very good – and this is reinforced by the relatively high scores achieved for ease of understanding for each version. Given consumers’ general reluctance to engage with financial material, this response is encouraging and suggests that using the UCITS template is a good starting point for further development of this point of sale material.

In terms of overall quality of the information provided, 70% of respondents in the quantitative rated the two-page template document as good or very good, and only 3% as poor or very poor. Whilst not significantly different, the other versions tested received slightly lower positive and higher negative ratings.

This suggests that, in line with previous research findings, four pages represented the maximum practical length for such a document, as anything longer may not be read. Even the four-page documents were compared unfavourably for their length with shorter (two and three page) documents in the qualitative research, and had lower scores for satisfactory length in the quantitative research (where the shortest template document scored significantly higher than the other versions for acceptable length).

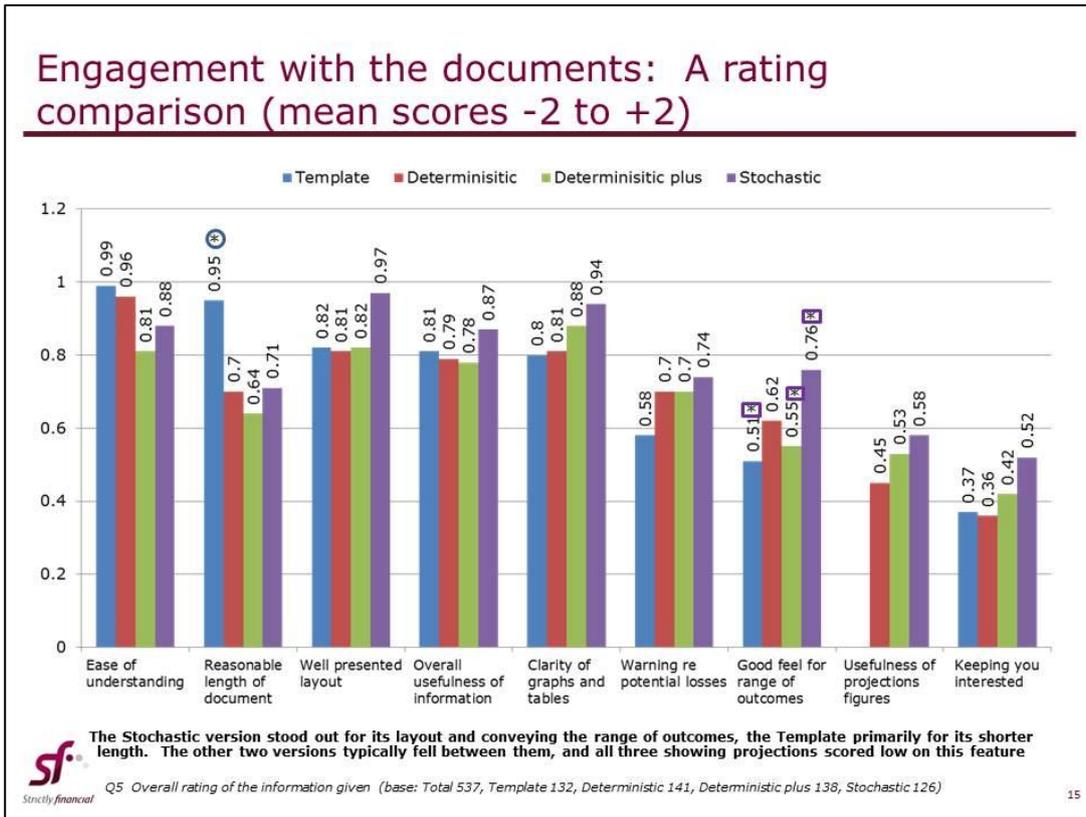


Figure 5: Engagement with the documents

It follows that document length should be kept to a minimum while containing all the useful information required: two pages should be seen as ideal (though the need for white space and clean layout may make this impractical, given all the information it needs to contain). Four pages should be seen as a practical maximum. More than this is very likely to lead to consumer disengagement. We can see from the quantitative findings that the ‘keeping you interested’ dimension scores lowest of all the factors, and this is a clear and present danger that needs to be considered when designing any material of this type.

Most of the language used was non-technical, and where technical terms were used they were explained, usually in the same paragraph. The use of language was widely praised for its simplicity and clarity by consumers in both the qualitative and quantitative stages, and by advisers in the qualitative interviews.

The key message from previous research was that all possible barriers to engagement and comprehension need to be removed, as it takes very little to reduce people's already limited interest in reading and concentrating on this type of document. The pages need to be visually interesting and not too cluttered, the language needs to be simple (and any unknown or technical words explained), and the document needs to be as short as practical. Interestingly, despite its relative complexity and divisiveness, overall the stochastic version scores highest for keeping consumers interested due largely to its visual interest.

The stimulus in this project adhered to the learnings from previous research and was largely successful in avoiding the traps of excess length and wordiness, being too densely packed with information or bamboozling the reader with too much technical jargon. As can be seen in the chart above, all versions received relatively high scores for layout and clarity of graphs and tables.

“I am very impressed by the content and presentation style in these documents. For a relatively inexperienced investor like me they are very easy to understand compared to the usual documentation I have come across in the past” (Template)

“Information like this written clearly makes it much easier to understand investments and should be included with all investment schemes” (stochastic)

However, consumers still had some issues with the presentation of complex information. These revolved around limited understanding of how investments work, and an inability or unwillingness to read the documents closely, resulting on occasion in missed or misinterpreted information despite (rather than because of) what the documents actually said. For the stochastic version, 16% found some information confusing, falling to 11% for the template and deterministic versions and 8% for the deterministic plus.

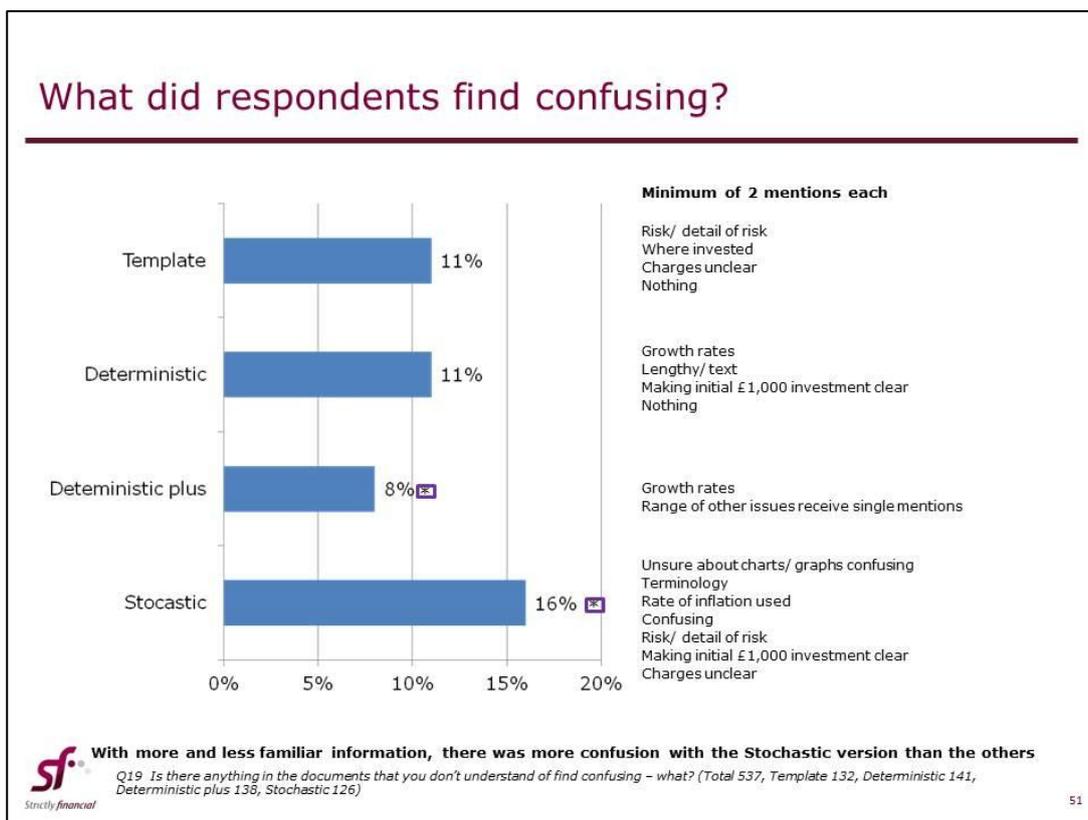


Figure 6:

#### Degree of confusion

It follows from this that the type of language used in the research stimulus was broadly in line with consumer needs, and this approach could be used as a guideline for future document development. However, it should be borne in mind that gaps in consumer knowledge are likely to be filled with (often incorrect) assumptions, and that not everyone will read the document as closely as they might. This means that important qualifiers to information, such as that figures are adjusted for inflation and/ or take provider charges into account, should not only be clearly and simply expressed, they should also be made to stand out in their presentation (e.g. through the judicious use of bolding) and repeated at strategic points.

#### 4.2.3 Use of standard information

All versions of the documentation researched used the same presentation of risk and reward, past performance and investment charges and contained a statement of objectives and investment policy. These were contained in the first two pages, which stood alone in the template version and formed the front section of the other three versions.

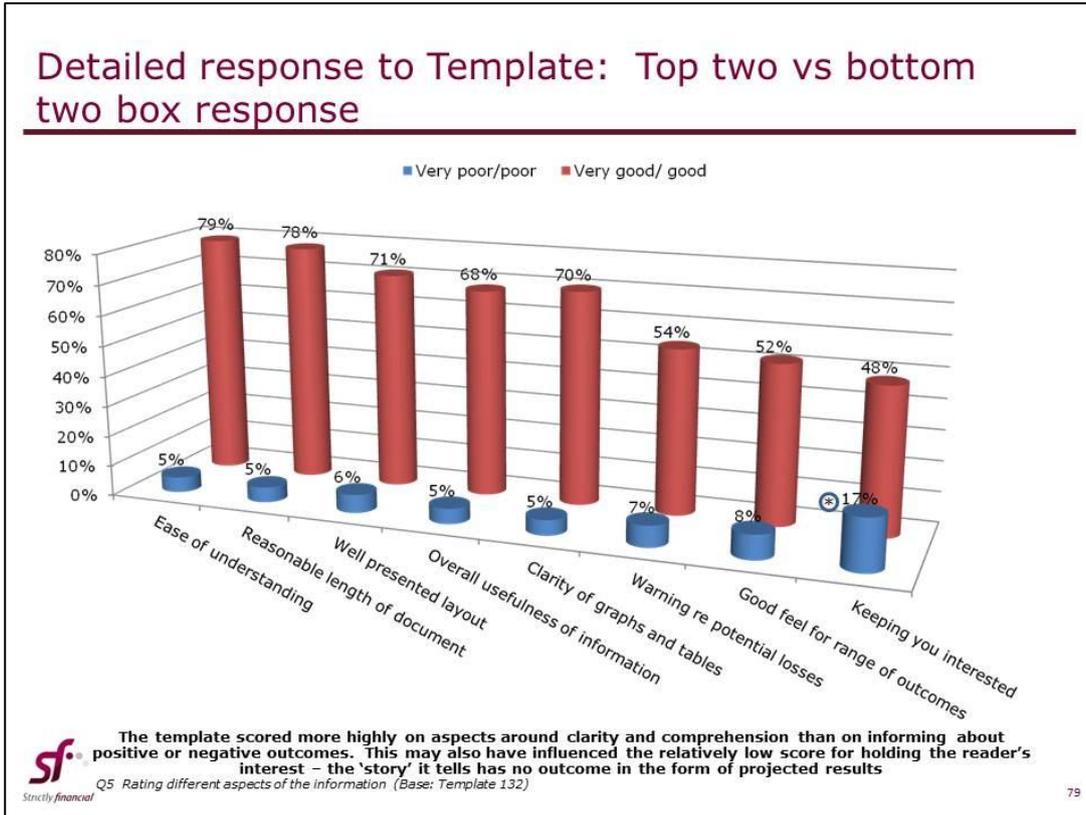


Figure 7: Detailed response to the Template

As can be seen in the chart above, the content of the first two pages scored well with consumers. All of these elements were widely seen to be very helpful, and this view cut across sample differences of age, sex, financial sophistication, etc. This emerged both from positive comments during the qualitative research and from the similar high scores achieved by all of these elements in the quantitative research.

The lower scores to the right relate to information they lacked rather than contained, and to their ability to sustain the reader's interest. These two areas are likely to be related and this was confirmed in the qualitative feedback where consumers' were asking for more information and data about the fund (where invested, projected returns etc.).

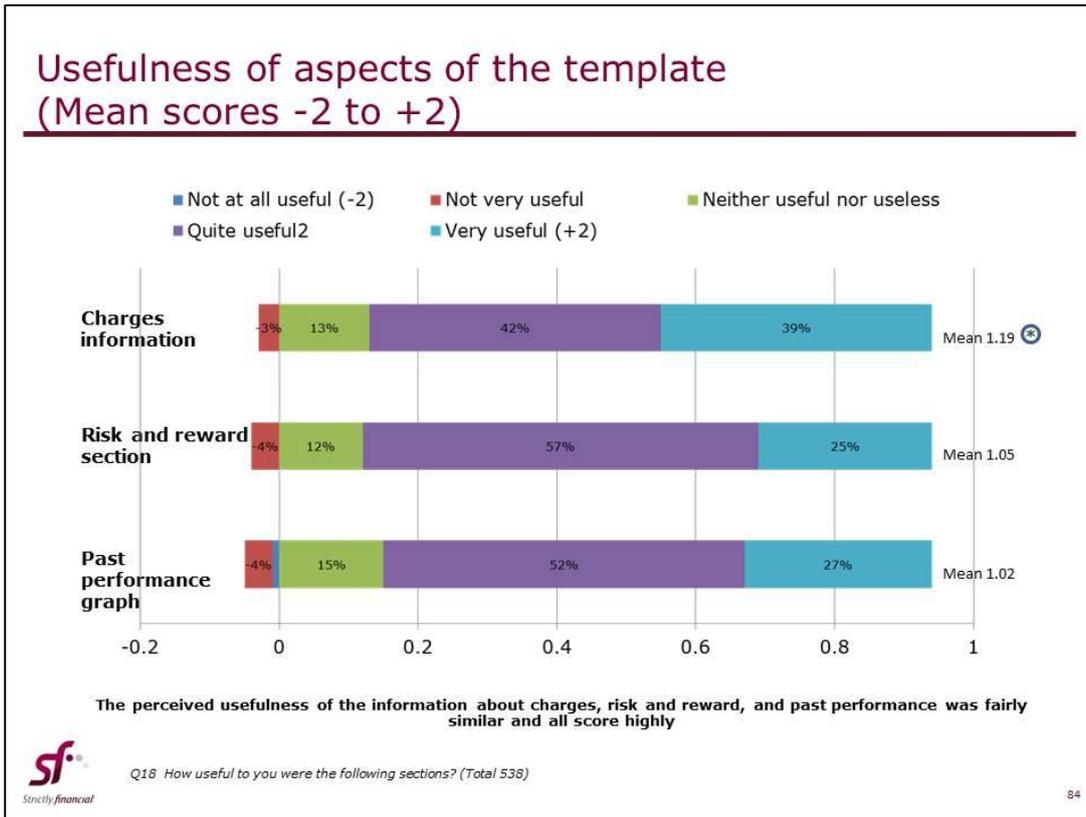


Figure 8: Usefulness of the Template

All three elements were thought to be very or quite useful by over 80% of respondents. Qualitative investigation revealed that consumers were impressed by the openness of the information (normally expected to be 'hidden' in the small print) and how easy it was to understand (the combination of explanation and a simple to read table was appreciated).

The risk and reward section, with its simple scale, immediately conveyed a sense of relative risk, and this was reinforced by the volatility of performance shown on the past performance graph. These two elements combined to give respondents a very strong sense of the underlying risk of the investment being considered.

#### 4.2.4 Section: Objectives and investment policy

This section is the first seen by consumers, and sets expectations for the remainder of the document. Inevitably a research setting cannot replicate the reality of an actual purchase decision – and in this case the focus was on a specific document rather than the broader pack of information that would normally be provided. As a result, and unsurprisingly, there was a widespread call for more information about what sectors, countries, etc., the shares proportion was invested in, though it was also acknowledged that this information might be provided in some of the other, more sales orientated documentation.

"I looked at this and wasn't quite sure what I was buying, what shares that 80% was going into" (Mid-high sophistication, BC1, young family)

The stated investment aim was also thought to be clear and unambiguous, and was felt to be a good way of 'setting the scene' for novice investors. The minimum starting and subsequent investment amounts were thought to be clearly stated.

"I thought it was also quite good information, especially if you're coming to investing for the first time, because it's telling you the aims and the purposes ... if you're not familiar with the term 'capital', for example, they're telling you what that is. I thought that was really quite useful to somebody who's new to it" (Mid-high sophistication, BC1, pre-family)

There were, however, concerns about some of the information in the objectives and investment policy seeming to conflict with both the investment name and the risk category: specifically the reference to the proportion of the investment held in shares, which gave a sufficiently wide spread in the objectives and investment policy statement for consumers to think that it must cut across two or more different risk categories. For some this made the information provided so broad and vague as to be virtually useless.

"The text totally contradicts what's in the table. The text says anything from 40% to 85%. That can't all be Risk 5" (Low-mid sophistication, C1C2, older family)

"It says 80% shares, then says it could be 40-85%, so there's a bit of contradiction or vagueness there. So the language is clear, but the information is not that clear" (Low-mid sophistication, C1C2, pre-family)

The reference to the investment being suitable for a minimum of 5 years was seen as important information which made it clear that the investment was relatively long term and required commitment on the part of the investor. However, it was also quite widely misinterpreted despite the clarity of the text, and various incorrect assumptions and extrapolations were made as a result: these included that a 5 year investment term was the minimum (and therefore a shorter term investment could not be made), that no withdrawal could be made before 5 years had elapsed, or that there would be a penalty for withdrawal of the investment within 5 years.

"What I took from it was that you can withdraw it within 5 years, but there will be a penalty charge" (Mid-high sophistication, BC1, empty nesters)

The comment quoted above was an incorrect inference (despite being described as having been stated explicitly in the stimulus), based on a simple and clear recommendation in the text, and is indicative of how this type of document is often read by its target audience: superficially and with the (often incorrect) application by the reader of assumptions and prejudices related to other aspects of financial services.

A clear way needs to be found to provide important extra information without appearing to clash with the broader statements made or figures given, and this needs to take into account the consumer's ability to misunderstand or misread what they are being told.

#### 4.2.5 Section: Risk and reward indicator

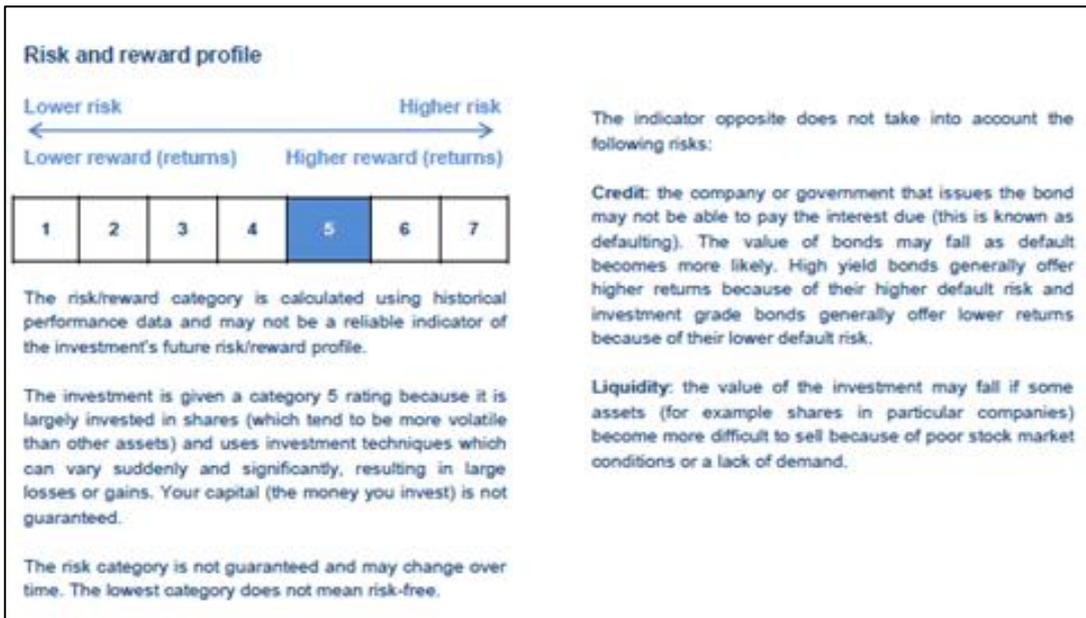


Figure 9: Extract from stimulus - risk and reward indicator

The risk and reward indicator was both easy to see and hard to misunderstand. In the quantitative research 82% found it quite or very useful, and minor criticisms in the qualitative research of details of the presentation made it clear that the key message was being well received and understood.

The risk and reward indicator was used as an 'at a glance' measure of the risk (and thus of the fundamental appeal) of the investment, and its inclusion was enthusiastically welcomed. Although consumers were unsure of what investments would fit in which risk categories, they all readily and quickly understood where the example investments sat in terms of risk. They used this information to start to form an opinion of the appeal or otherwise of the investment and used this as key comparator when asked to choose between investments.

"You can actually see what the risk is compared to other products, per se, very quickly, very easily" (Mid- high sophistication, BC1, older family)

"I think visually it gives you a picture which is good for people that maybe struggle a bit with some of the jargon and things, some folk don't entirely read these things. They might get that information through just the visual element" (Mid/ high sophistication, BC1, Retired/ semi-retired)

This is both a strength and weakness of the device – it gives an immediate idea of the risk, but there is some danger that individuals will take this at face value and not read the accompanying, qualifying and explanatory text.

The scale of 1-7 used in the risk indication table was seen by some as an odd and counter-intuitive range. Their view was that either a 1-5 or 1-10 scale would feel more natural to people, and that there was even some chance of people underestimating the risk of an investment because they would unconsciously be applying 1-10 estimates of risk to a risk indication a score of 5, rather than correctly placing it within a 1-7 scale. This view emerged among a minority of both consumers and advisers. Others had no issues with the scale.

“I do think that chart is misleading. When you think of 5 you think of it as being middle of the road. You think 1-10. But really that 5 is not 5, it's an 8” (Mid-high sophistication, BC1, Pre-family)

There were also widespread calls for some examples to be given, so as to illustrate and contextualise the risk scale. It was felt that the scale should include risk-free investment, as it was seen by some to be incomplete without this. Suggestions for inclusion at the ‘0’ (risk-free) point on the scale included cash and guaranteed products.

“It says cash is not no-risk. I thought it was. Maybe they should have a zero, which is no-risk” (Low-mid sophistication, C1C2, young family)

For some the clarity and ease of interpretation of the risk and reward scale was undermined by what was seen as the vagueness of the accompanying text. Specific criticisms were made of the references to the fact that the risk indication score was not guaranteed and was subject to change. This was felt by some to be so vague and noncommittal as to render the risk indication score itself meaningless.

“I didn't find it very reassuring, because it said it may not be reliable anyway. It may not be a reliable indicator of the investment's future risk/ reward profile. If it's not going to be reliable, I don't really see the point of it” (Low-mid sophistication, C1C2, young family)

Care needs to be taken that the information is – and clearly appears to be – consistent. If figures are to be qualified by text, the qualification should come first (as it did in the deterministic versions before showing inflation adjusted figures), and should not appear to directly contradict the figures it relates to, as it did for some of the less sophisticated consumers. If reality requires such a direct contradiction, the usefulness of including the information in the first place is open to question.

This has implications for categorising the investment's risk and return, as the categories were widely, quickly and well understood, but undermined to some extent by the text used to qualify them.

The text covering credit and liquidity was glossed over largely without comment by some in the qualitative research. For them it equated with ‘small print’, i.e. only relevant in the case of a problem arising. However, for others it too was felt to undermine the risk and reward scale, because it stated clearly that these credit and liquidity issues had not been taken into account in scoring the investment for risk and reward, yet they were clearly of great importance. This led some people to question just how reliable the risk and reward indication score really was.

As was the case with the risk categories, it is clear that the inclusion of further information to qualify or add granularity to the apparent simplicity of a headline message can have the effect of undermining it for those who are least familiar with investment.

There was some disagreement over the clarity and ease of comprehension of this text: the more sophisticated and some others tended to see it as clear and easy to understand. However, others clearly struggled with it, specifically with terminology such as ‘high yield bonds’, ‘liquidity’ and ‘default risk’. Some were unclear as to their relevance in this context, others unsure as to what the words actually meant.

“The language was mainly clear til it got to credit and liquidity, where I felt you needed to know more about the subject to understand it. Why talk about bonds here, when the investment is in shares?” (Low-mid sophistication, C1C2, empty nesters)

## 4.2.6 Section: Charges

**Charges for this investment**

The charges you pay are used to pay the costs of managing this investment, including the costs of marketing and distributing it. These charges reduce the potential growth of your investment.

The initial charge is the maximum that might be taken out of your money before it is invested.

For some investments, an exit charge (e.g. a market value deduction) may apply.

The annual management charge covers both the investment manager's costs (the management charge) and the cost of setting up your investment and the on-going administration (the product charge).

If you are receiving advice, you will need to agree with your adviser how to pay for their services before you invest. You may pay for these services via your investment (this is known as facilitated advisor charging) or you can pay a fee separately to your adviser.

One off charges taken before or after you invest	
Initial charges	0%
Exit charges	0%
Charges taken from the investment over the year	
Annual management charge	0.75%

The annual management charge is calculated as a percentage of the value of your investment. If your investment is worth £1,000, we would take £7.50 for the annual management charge.

Figure 10: Extract from stimulus - charges

The table delineating the investment charges was seen as quite or very useful by 81% of respondents in the quantitative research. In the qualitative it was generally described as clear, although it did lead to some confusion when read in conjunction with the text box on the same page. This confusion stemmed from the lack of understanding among the less sophisticated investors of what the different elements of charges are for and how they work. Specifically some consumers were confused about the relationship between initial charges, first year AMC charges and adviser charges, and what, if any, effect these charges would have on the initial investment sum. For those more conversant with the subject this information was seen as being very clearly conveyed.

"The text under the charges table is really ambiguous" (Low-mid sophistication, C1C2, retired/ semi-retired)

"I thought the charges were made clear. They are quite upfront about that, which was good to see" (Mid-high sophistication, BC1, young family)

The reference to the possibility of exit charges was also the subject of confusion for some consumers, particularly if they had already misread the 5-year minimum recommendation as a 5-year minimum stipulation, as this led them to expect that there would be an exit charge for withdrawing from this investment within 5 years.

"The reference to exit charges in the text box on the left is different to the zero percent exit charge in the box on the right, and it makes you wonder under what circumstances it would apply" (Mid-high sophistication, BC1, young family)

Some consumers were also unsure from the wording whether the on-going (AMC) charges applied to the initial investment amount or the current value of the investment.

There was mixed knowledge about the RDR implications of paying advisers directly. A few of the less sophisticated thought it outrageous to pay for financial advice, while others were aware that the way advisers were remunerated was changing with the effect that they needed to be paid directly. However, some of these consumers were critical of the way advisers charges were treated in this document, i.e. acknowledged but not addressed. They felt it left this section incomplete. This also suggests a limited understanding of the post-RDR relationship between providers, advisers and customers.

“What’s the difference between the investment manager and the financial adviser? I find it unbelievable that you have to pay the adviser as well” (Low-mid sophistication, C1C2, empty nesters)

The way charges were presented was overall seen as fairly clear, and such problems as arose stemmed from lack of background knowledge of the subject, rather than weaknesses in the presentation. It is open to question how much extra/ educational information can be included without running the risk of adverse effects such as consumer disengagement. It is also difficult to see how adviser charges could be dealt with in more (useful) detail, given the more direct financial relationship between adviser and client that flows from the RDR.

#### 4.2.7 Section: Past performance graph

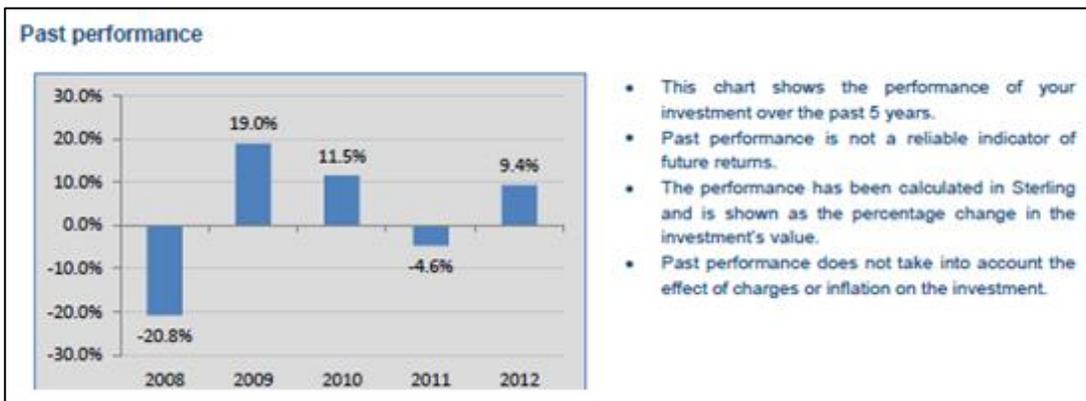


Figure 11: Extract from stimulus - past performance graph

It emerged from the research that one of the regulator's most widely and clearly received messages is that past performance is not a guide to future performance (as was also stated in the stimulus). However, there was general agreement that the inclusion of past performance information was very useful, and 79% rated it as quite or very useful in the quantitative research. It was seen as giving a clear indication of the recent volatility of the investment, which in turn conveyed a sense of risk to capital and to any subsequent growth. It was also seen as giving a 'real-life' illustration of the risk category awarded to the investment on the previous page, and as such was a useful benchmark for deciding whether or not this was an acceptable risk.

“The past performance has to be in there, but they’re only putting in ‘past performance is not a reliable indicator of future returns’ just to cover themselves, basically, but that’s how most people would invest money, is by looking at past performance” (Mid-high sophistication, BC1, pre-family)

“Football transfers, you’d look and you’d see what the player has done ... I think it’s human nature to look at what’s happened before. You’ve got nothing else to go on” (Mid-high sophistication, BC1, pre-family)

There were some issues of clarity, notably whether the scales shown were discrete or cumulative, and it was felt that some sort of relevant performance benchmark (e.g. the sector as a whole or the FTSE) would be a useful addition to the information on the graph.

“Some kind of indexing or benchmark would be useful on the past performance” (Mid-high sophistication, BC1, young family)

The past performance graph also encouraged a few people to do their own calculations as to the net return over the 5-year period indicated. There is a risk here that people may draw the wrong inferences or make such calculations incorrectly.

“If you add it all up, you are only getting 5% after 5 years” (Low-mid sophistication, C1C2, empty nesters)

“I did a calculation on this, and it gives you 11% return over that 5 year period, before tax. If you put it in the bank you’d get 11%, tax paid. I’d rather put it in the bank, it would be safer” (Mid-high sophistication, BC1, empty nesters)

A few of the more sophisticated investors thought that the past performance of the manager was more important than that of the investment itself, or that with a minimum recommended investment period of 5 years it would have been more helpful to show a longer period of past performance.

“I don’t think 5 years is enough to show what the trend is in past performance. It’s very up and down. I’d like to have seen past performance over 10 years, maybe more” (Mid-high sophistication, BC1, empty nesters)

The clear message is that consumers want to see past performance information, and in the examples shown were using it to gauge the investment’s volatility. They appeared to understand that they couldn’t make assumptions that future performance would be the same as past performance.

## 4.3 Inclusion of projection information

### 4.3.1 Summary

While advisers treat projections with wariness and some distaste, consumers are very keen to have them included. Not only do they ask for them when not included, they tend to find them useful when they are. Nonetheless they are misinterpreted by some consumers, notably as offering 'realistic' boundaries of expected returns. Showing them in both tabular and graphical form caters for different natural preferences of information assimilation.

Both deterministic and stochastic approaches have strengths and weaknesses, but the stochastic approach was the more controversial and proved more divisive among both consumers and advisers.

### 4.3.2 Why consumers want projections information to be included

Consumers were generally in favour of the inclusion of projection information, and they claimed to know that this information provided examples only, rather than any sort of prediction.

"I wanted some actual figures, and I was pleased to see them on the last two pages"  
(Low-mid sophistication, C1C2, older family)

"I would have been happy with the first two pages, but after seeing the rest I was glad it was there" (Low-mid sophistication, C1C2, older family)

The chart below shows the majority of customers perceived the inclusion of projections to be useful- 69% of consumers found the stochastic presentation quite or very useful, falling to 61% for deterministic plus, and 52% for deterministic. The fall in perceived usefulness may be explained by the view that emerged in the qualitative research that the actual projections presented were disappointing in terms of growth – largely due to the adjustment made for inflation. We can see that the deterministic version, which did not include an explanation of inflation adjustment was thought to be least useful, and that the stochastic version which showed more extreme high/ low points was thought to be more useful.

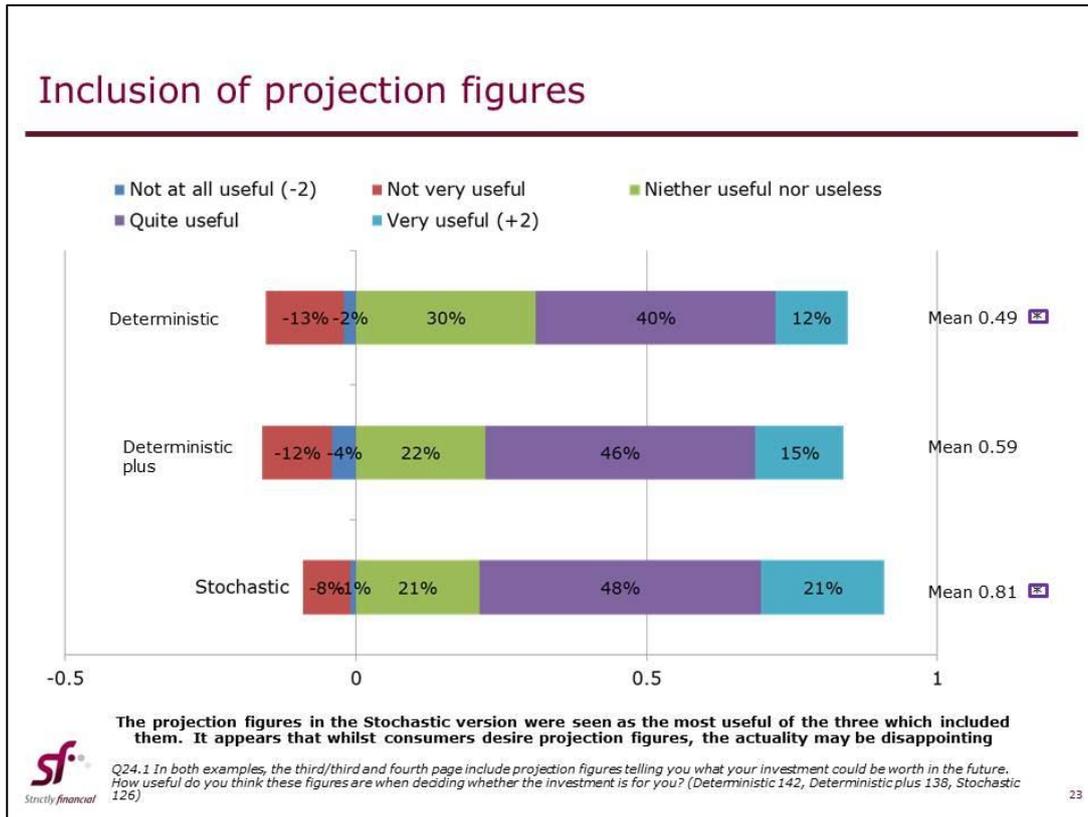


Figure 12: Usefulness of including projection figures

The main reason given for wanting to see this information was that it included actual figures as well as percentages. This was seen as having two real benefits: it made the potential for growth seem more concrete by including actual monetary values; and by giving actual values based on several years of compound growth (or decline) it saved the customer the need to do complex (and possibly too difficult) calculations. It was also felt to offer the further benefits of helping people to make a risk/ reward trade-off (again by showing actual values as well as percentages), and a further reminder through the inclusion of negative projections that growth is not guaranteed. The quantitative results suggest that, when projection information is excluded, consumers are less likely to get a good feel for the range of outcomes and potential for loss than for the alternative versions – therefore omitting the information introduces another set of potential comprehension issues.

“You need it because it shows actual cash values. The other pages don’t. If it’s just percentages you don’t know how much you will get back after so many years” (Low-mid sophistication, C1C2, young family)

“The negative growth they show here is good. It clearly states that you could lose money, as it should” (Low-mid sophistication, C1C2, retired/semi-retired)

The projections were also seen as a useful differentiator between the different investments, and as such they could be used to help with the two key investment decisions: whether or not to invest, and if so which investment to put money into.

However, there were some criticisms of the periods shown in the projections. Both the minimum (1 year) and maximum (15 year) periods were felt to be less useful than the middle period of 5 years, and there were several suggestions to add (or replace one of the others with) a 10 year projection.

“Why put in one year, when it says the minimum is 5?” (Mid-high sophistication, BC1, young family)

“I think showing 15 years is too long. I don’t think a lot of people investing in something like this will be looking that far ahead” (Low-mid sophistication, C1C2, pre-family)

It was only the most sophisticated investors who were comfortable with the omission of all projection information. For them projections added nothing except examples of different values at specific growth rates, which they claimed not to need in order to make an investment decision and in any event were speculative. In this they mirrored the adviser view.

Furthermore some of these sophisticated investors were critical of the rates used, mainly because they suggested continuous growth or decline, whereas the reality would be much more dynamic positive and negative swings.

#### 4.3.3 The downsides of including projections information

The risk of including this information, as identified in previous research and also as pointed out during this project by the IFAs interviewed, was that consumers would mistake the projections for something closer to predictions.

It became clear during the group discussions that at least some among the less sophisticated consumers were treating the projections of high, medium and low returns as realistic (and for some more or less guaranteed) boundaries within which the real return was almost certain to fall. There also appeared to be a disconnect between what people said they understood, and the language they then used to describe the figures (e.g. ‘*I know it is not guaranteed, but it WILL fall between these figures*’). At the very least these consumers saw the projections as the providers’ estimates of how the investment would in all likelihood perform, rather than simply examples illustrating the monetary value at specific growth rates.

Most of the consumers assumed or inferred from the text that each of the projection rates was tailored to that investment, and this contributed to the sense that the projections were relatively realistic expectations on the part of the provider. The reference in the text to the FCA setting the limits quoted contributed to this view and provided an extra layer of reassurance.

“If I bought that based on this [Deterministic Plus] and it went lower, I’d think that’s lied to me, because it’s not telling me that” (Low-mid sophistication, C1C2, pre-family)

The implication of this is again that consumers bring to bear assumptions that may be incorrect, and these influence their interpretation of what the projections are ‘saying’. The challenge of including projections is that they both meet a consumer need and introduce potential for some consumer misunderstanding.

Even among those not making this mistake there was a feeling that the projection figures were given a spurious sense of accuracy by showing percentages to one decimal place and accompanying exact monetary values.

“It might just need a little bit of an explanation around where the percentages have come from, that they’ve not just been randomly plucked” (Mid- high sophistication, BC1, older family)

“I didn’t understand where they got those percentages from. Where does minus 2.9% come from? It was distracting, because they seem to have picked very specific numbers, and I don’t know why. They don’t bear any relation to the past performance they show on the previous page. If they are just examples, as it says below, why so specific, why not use round numbers like -5%, +5% or whatever? It needs more explanation” (Low-mid sophistication, C1C2, pre-family)

In terms of how best to present the projections, in tabular or graphical form, views were split, but as in previous research the weight of opinion came down in favour of including tables as a first priority. In general, graphs were seen as desirable and often more engaging, but less absolutely necessary than tables. The exception was for the stochastic version – for consumers who were able to engage with the graph, this assumed more importance (and was seen to be more comprehensive) than the table. However, conversely the graph’s complexity was completely off-putting to those who were unable to engage with it and these individuals gleaned relatively more information from the table.

#### 4.3.4 Efficacy of different presentations of projection information

In terms of ease of understanding, all the versions of the stimulus tested well. The deterministic plus version emerged from the quantitative research as the easiest projection to understand - 75% of consumers thought the figures were quite or very easy to understand compared to 67% for the stochastic and 68% for the deterministic versions.

This may be because the deterministic plus version carried the clear indication that the figures used were only examples, while the stochastic version was the least familiar approach.

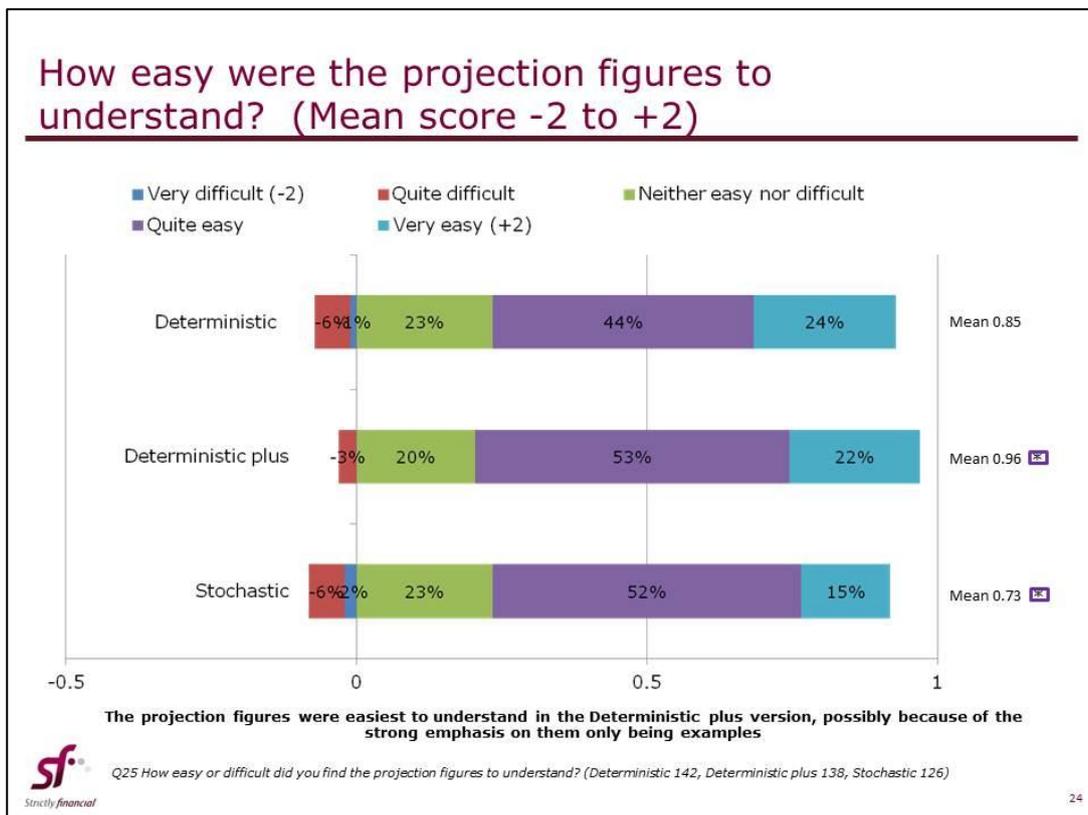


Figure 13: Ease of understanding projection figures

Generally consumers felt relatively well informed about the likely performance of the investments. Whilst the template version received marginally lower scores than the other versions, it nonetheless still seemed to indicate to consumers some general feeling of what the outcome would be – this is driven by the risk and reward profile and past performance information. In the absence of any more concrete information, consumers take the risk and volatility information, couple this with their underlying knowledge of investments (and expectations of growth) and overlay their own assumptions.

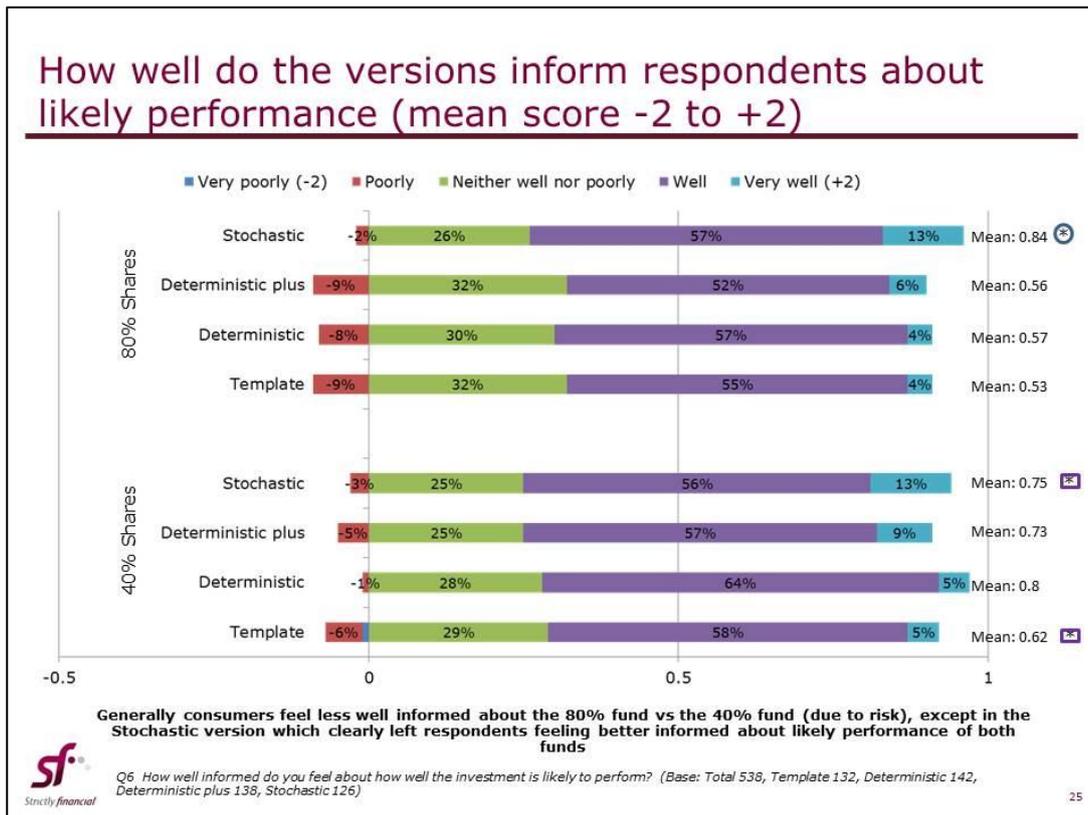


Figure 14: How well respondents are informed about likely performance

The stochastic versions gave consumers a better idea of how the investment might perform than the other two versions, despite being somewhat harder work to grasp. The whole focus of its projections was on the probability of different outcomes and strived to quantify this, so consumers felt more informed about how likely the various eventualities were than with the other versions. The stochastic version also communicated the risk of loss more strongly through the projection figures and graph than either of the deterministic versions (of which both had projection tables, and the deterministic plus also had a graph).

As can be seen in the above chart, there was a general trend for consumers to feel less well-informed about the likely outcome of their investment with the 80% equity versions than the 40% equity versions. This is probably because of the inherent uncertainty of a higher risk/higher volatility investment. However, interestingly responses for the stochastic version buck this trend – consumers feel equally well informed about performance of both the 40% and 80% fund (and if anything, more informed about the 80% fund). This indicates that the stochastic example is significantly more effective at communication of a range of potential outcome as the risk level of the investment increases. This is an important finding as it is arguably more important that consumers appreciate likely performance scenarios as risk increases because this is likely to span a wider range of outcomes.

#### 4.3.5 Commentary on stochastic method of presenting likely performance information

The stochastic presentation of projection information was polarising. In part because of the unfamiliarity of its information and in part because of the way information was presented. The stochastic projection table proved harder to understand for consumers in the qualitative research than the deterministic versions. Some of them felt overwhelmed by the figures, while others claimed to understand them but still felt they were not being given the information they needed, either because they wanted simple (i.e. deterministic) examples, or because they felt the wrong information had been selected for the stochastic presentation.

“Having both the graph and the table doesn’t leave you more or less informed, it leaves you confused” (Low-mid sophistication, C1C2, young family)

“There’s too many numbers, too much going on. It’s like doing a maths test. I switched off” (Low-mid sophistication, C1C2, empty nesters)

This feeling is reinforced in the quantitative findings, where the stochastic version received more negative scores for ‘understanding of risks and rewards’, ‘ease of understanding of projection figures’, ‘level of comfort in decision making’ and the number of people who were confused about something, whilst none of these scores are significant, it is an interesting trend that runs across responses to various questions and one that suggests that further research, exploring different methods of presenting stochastic projections, is necessary

In contrast with the sentiments expressed above, other consumers reacted to the stochastic projection like a breath of fresh air. They found information about the probability of different outcomes to be both interesting and very useful, in their view far outstripping the more limited information communicated by the deterministic projections - it gave them more (and more useful) information about how their investment might perform.

“It’s more interesting. It’s reader-friendly. It’s more helpful. The risk is there, and you can see what’s going on. I like the layout. It seems to give you more information about what might happen in the future, and I do like the graph” (Mid-high sophistication, BC1, young family)

“It’s quantifying the risk for you. The fact that it’s got probability in it makes me feel more confident” (Low-mid sophistication, C1C2, older family)

“It seems more relevant to my money, and gives me more certainty” (Low-mid sophistication, C1C2, empty nesters)

Because the stochastic example moves (deliberately) away from FCA guidelines, and bases the figures on likelihood rather than a middle rate +/- 3%, this version did not include a reference to the FCA as an arbiter of the figures used. It was clear that some sort of reassurance was needed as to how the projections were arrived at – for some they seemed spurious and lacked an ‘anchor’. Because the stochastic approach is very different, unfamiliar and (for most) radical approach, the lack of association with the FCA caused some consumers in the qualitative research to query how the figures had been arrived at.

Reference to the FCA (included in the deterministic versions) carried considerable weight in this regard. Two main factors contributed to this: independence from the provider, which provided a degree of reassurance that the figures were not simply invented by the provider; and the fact that the FCA was known to be the regulator, which added further perceived weight to the independence and impartiality of the figures.

“This one says the figures are dictated by the FCA. I’ve got more confidence in them than in the figures some company tells me I might achieve. It mentions the FCA has set the rates and says they are typical figures that you might expect, so I think this is a lot more credible. If that other [stochastic] graph we saw had FCA on it, I might still struggle to understand the figures, but I would have more confidence in it” (Mid-high sophistication, BC1, empty nesters)

It puts me off because I don’t know how they’ve arrived at it, so I don’t trust it. I’ve got no problem with words like chance, because in the end investment in shares is a bit like gambling. I’ve got more of a problem with how they arrive at those figures” (Mid-high sophistication, BC1, Pre-family)

#### 4.3.6 Comprehension of the projections information

Several questions were included in the quantitative research to test consumers’ comprehension of the projection figures. Respondents were asked to judge the accuracy of four statements about different returns over different timescales. These included the absolute minimum an investor would get back, as well as whether specific amounts were reasonable expectations. A statement was made about the investments, and respondents were given ‘true’, ‘false’, ‘impossible to say’ and ‘don’t know’ options for responding. They were able to refer back to the stimulus material at any time. Including questions of this type in quantitative work is always challenging, but despite this the responses can be enlightening and be a good test as to whether people truly understand the information or just think they do. It can also help determine whether certain approaches are better at facilitating consumer understanding than others.

Whilst looking at the 40% equity fund version, respondents were asked to state whether £864 (deterministic versions)/ £750 (stochastic version) was the **absolute** minimum that they could get back after 5 years. In the stimulus these figures are shown as the lower projection rates/ low end of the 80% probability range. The statement is false.

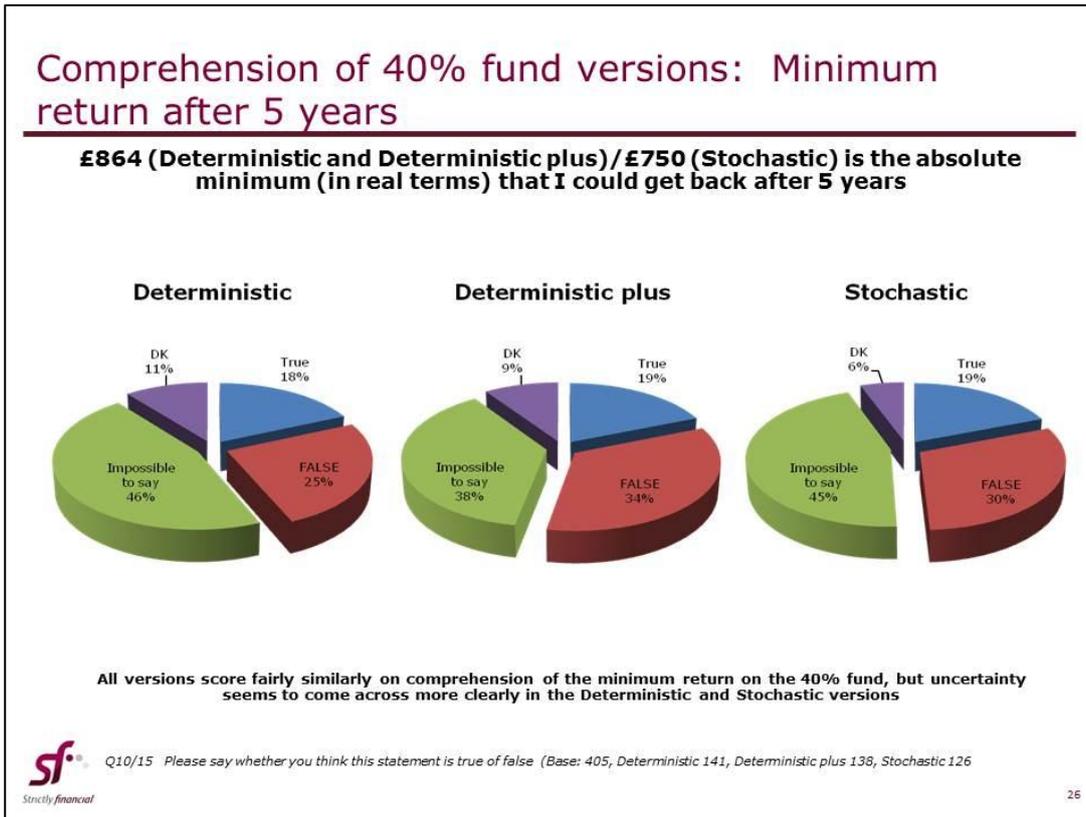


Figure 15: Comprehension of 40% fund versions - minimum return

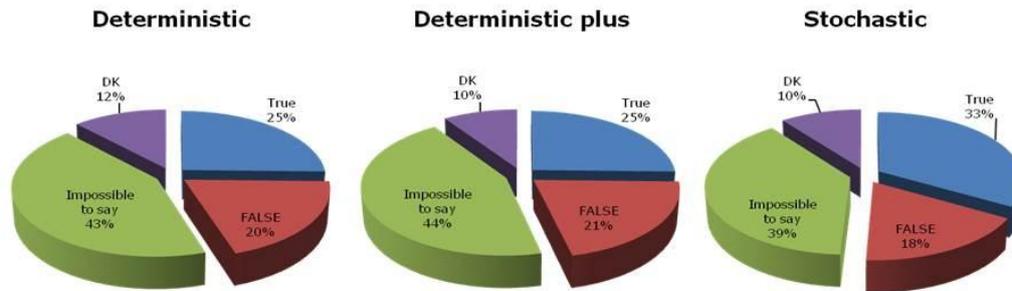
Despite the fact that the material stated the figures did not represent the maximum or minimum amounts, for all three versions, nearly 20% of respondents believed that the lowest figure was the absolute minimum they would get back. Further, between 38% and 45% thought it was impossible to say whether the statement was true or false- whilst this may be driven by an appreciation of the uncertainty of outcome, this answer is incorrect. The deterministic version generated the lowest proportion of correct responses (25%), followed by the stochastic (30%) and deterministic plus (34%).

This suggests that the deterministic plus version was slightly better at allowing respondents to correctly interpret and extract the information than both deterministic (lacks context) and stochastic (figures harder to both find and interpret) versions. However, the best performing projection yielded only one in three correct answers.

We then asked respondents to assess whether £1,018 was a reasonable estimate of what they may receive back after 15 years if invested in a 40% equities fund. This figure represents the midpoint/ 50% probability of return, and so technically is correct.

## Comprehension of 40% fund versions: Reasonable return after 15 years

**£1,018 is a reasonable estimate of what I might get back after 15 years in real terms**



**The Stochastic version gives the strongest sense that £1,018 is a reasonable expectation of return after 15 years on the 40% fund. The other two versions are indistinguishable from each other in this regard**



Q10/15 Please say whether you think this statement is true or false (Base: 405; Deterministic 141, Deterministic plus 138, Stochastic 126)

27

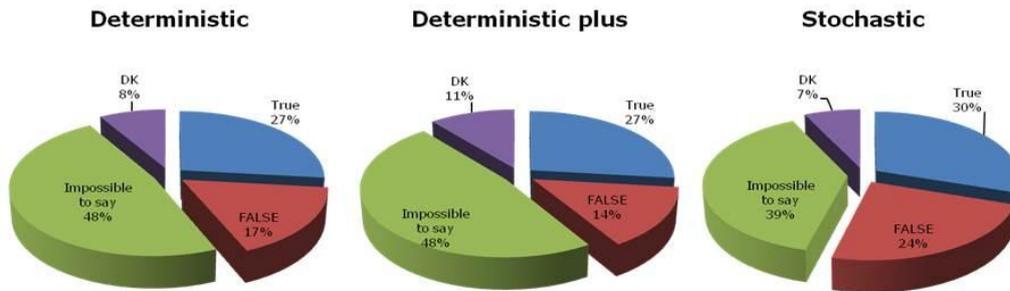
Figure 16: Comprehension of 40% fund versions – reasonable return

Again, the number of respondents giving the correct answer was low, falling from one third (33%) for the stochastic version to 25% for both deterministic. The stochastic version gave consumers more certainty than the other versions, as more answered the question correctly and marginally fewer (39% vs. 43% and 44% for the deterministic versions) said it was impossible to say.

Respondents were then asked to assess whether £1,585 (deterministic and deterministic plus)/ £1,595 (stochastic) was a reasonable estimate of what they might be back after 15 years. The figure shown was drawn from the high end growth rate (+3%) for the deterministic versions and the 80% probability column for the stochastic – so the answer was false.

## Comprehension of 40% fund versions: Reasonable return after 15 years

**£1,585 (Deterministic and Deterministic plus) / £1,595 (Stochastic) is a reasonable estimate of what I might get back after 15 years in real terms**



**With the 40% fund the Stochastic version conveys less uncertainty of outcome than the other versions, with over half the respondents who saw it giving a definitive view**



Q10/15 Please say whether you think this statement is true or false (Base: 405, Deterministic 141, Deterministic plus 138, Stochastic 126)

28

Figure 17: Comprehension of 40% fund versions - reasonable return

Again, the number of respondents selecting the correct answer (that the statement was false) was low. For the stochastic version, fewer than a quarter (24%) selected the correct answer. This fell to 17% for the deterministic version and 14% for the deterministic plus. Here too, the stochastic version conveys less uncertainty of outcome than the other versions, with 39% responding 'impossible to say' for stochastic vs. 48% for both deterministic versions.

Finally, respondents were asked to select a figure that best represented the middle of the range of returns after 15 years for the 80% equity fund, and were given four options to choose from. This question was intended to test basic comprehension of the material provided. The right answer for all versions was £1,146.

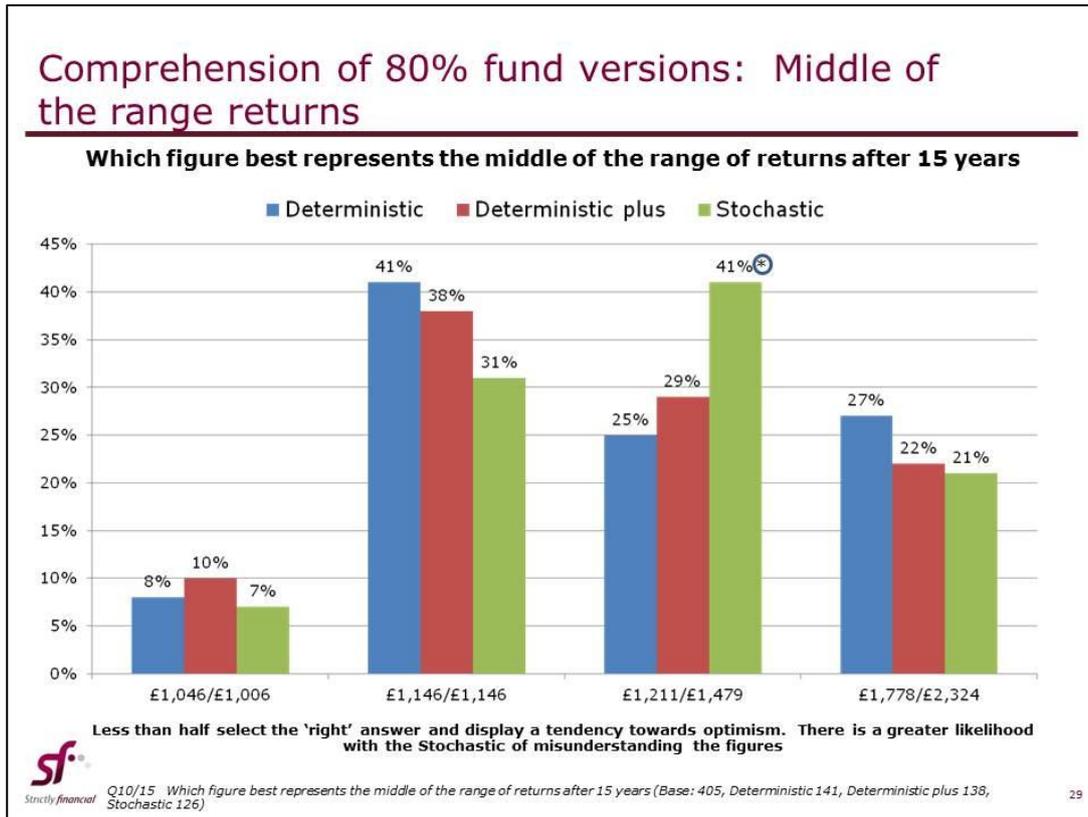


Figure 18: Comprehension of 80% fund versions - mid range return

Well under half the respondents in the quantitative research came up with the 'right' answer: 41% for the deterministic and 38% for the deterministic plus versions and for the stochastic version less than one third of the respondents got it right (31%). Overall, the responses to the questions suggest that a high proportion of consumers struggle to comprehend basic information about projections.

In summary, the feedback from the qualitative research with consumers and advisers, and from the quantitative research with consumers highlights both the benefits and the pitfalls of including projections: they satisfy consumer demand but many consumers struggle to comprehend basic information and projections are subject to misinterpretation - consumers can be inclined to see them as likely, rather than purely illustrative, outcomes.

#### 4.3.7 Conclusions on the inclusion of projections

Taken as a whole, the quantitative and qualitative findings illustrate that if projections are provided, every effort must be made to make them easy to understand and it must be made very clear they are only examples. This was most successfully achieved by the deterministic plus version of the stimulus. Crucially, whilst the stochastic version communicated more about (un)certainty of outcome, consumers find it more challenging to extract the correct information from this way of presenting the information. Further research is necessary to test alternative presentations of stochastic information to establish if it is possible to present the information in a simpler, and thus more comprehensible way.

Despite the poor levels of understanding revealed in the quantitative research, leaving out projections altogether as in the template runs the risk of denying consumers what they see as important and genuinely useful information which can remind them in practical terms (actual figures rather than 'mere' statements and percentages) of the compound effects of growth or decline, charges and inflation. On balance, and subject to even more overt messaging as to how to interpret them, their inclusion is more help than hindrance.

## **4.4 Perception and communication of risk and reward**

### **4.4.1 Summary**

The widespread view in the qualitative research was that the stimulus overall communicated messages of risk more strongly than those of reward. These messages were conveyed by the content of the text throughout, but more specifically by the risk and return indicator on Page 1 and the past performance graph with its indication of volatility on Page 2, as well as through the negative growth column in the projections tables which appeared on Pages 3 or 4 (depending on the stimulus version).

### **4.4.2 Aspects of the stimulus communicating risk and reward**

The risk and reward profile strongly and immediately communicated the risk of the investment, and was felt to do so at a glance. This set the expectation, and influenced the reading and interpretation, of the rest of the document.

The past performance graph was also felt to convey a strong sense of risk, especially with the 80% equity investment. Although the graph illustrates volatility more clearly than anything else, it is worth noting that consumers focused more on the negative side of volatility than on the positive, and equated it largely with risk.

"Looking at that graph you would expect it to be a higher risk than it gives in the risk profile on page 1" (Low-mid sophistication, C1C2, young family)

"Such a huge range up and down over 5 years, that it is clearly a gamble" (Low-mid sophistication, C1C2, retired/ semi-retired)

The view emerging from the qualitative research was that the documents were tonally downbeat, concentrating much more on risk than reward overall. This was especially true of the template, which had no projections included. Several commented that the projections in the other versions added a welcome note of optimism to an otherwise largely pessimistic document. At the same time the inclusion of negative growth projections was seen as a timely reminder of the risk involved and was felt to reflect the reality of the current economic climate.

"The negative growth they show here is good. It clearly states that you could lose money, as it should" (Low-mid sophistication, C1C2, retired/ semi-retired)

The stochastic graph was felt to communicate risk strongly through its inclusion of a large 'negative' area under the curve and by quoting the actual probabilities of losing different sums of money.

"I think as advice it's better than the other one [deterministic plus]. The risk is definitely much clearer" (Low-mid sophistication, C1C2, empty nesters)

### 4.4.3 Aspects of the stimulus communicating volatility

The key element in the document to convey the potential volatility of the investment was the past performance graph on Page 2. Both the 80% equities investment and the 40% equities investment were thought to give a good indication of the volatility of the respective investments, despite some confusion about the detail of what the graphs were showing.

“You get a sense of the risk from the past performance table” (Mid-high sophistication, BC1, young family)

The past performance graphs were also seen as a good way to compare the two investments, as they clearly showed different levels of volatility over the past 5 years, and indeed the name of the investment (which indicates its degree of stock market exposure) was also a big clue.

With most of the communication about volatility coming from the past performance graph common to all versions, all versions were seen as fairly equal in conveying this. This is confirmed by the quantitative research. All versions of the 40% equity investment scored low (-0.49 or lower mean score) on perceived volatility, whereas all versions of the 80% equity investment scored high (over 0.8). This suggests that the past performance information is communicating the difference between the two investments’ potential for volatility effectively.

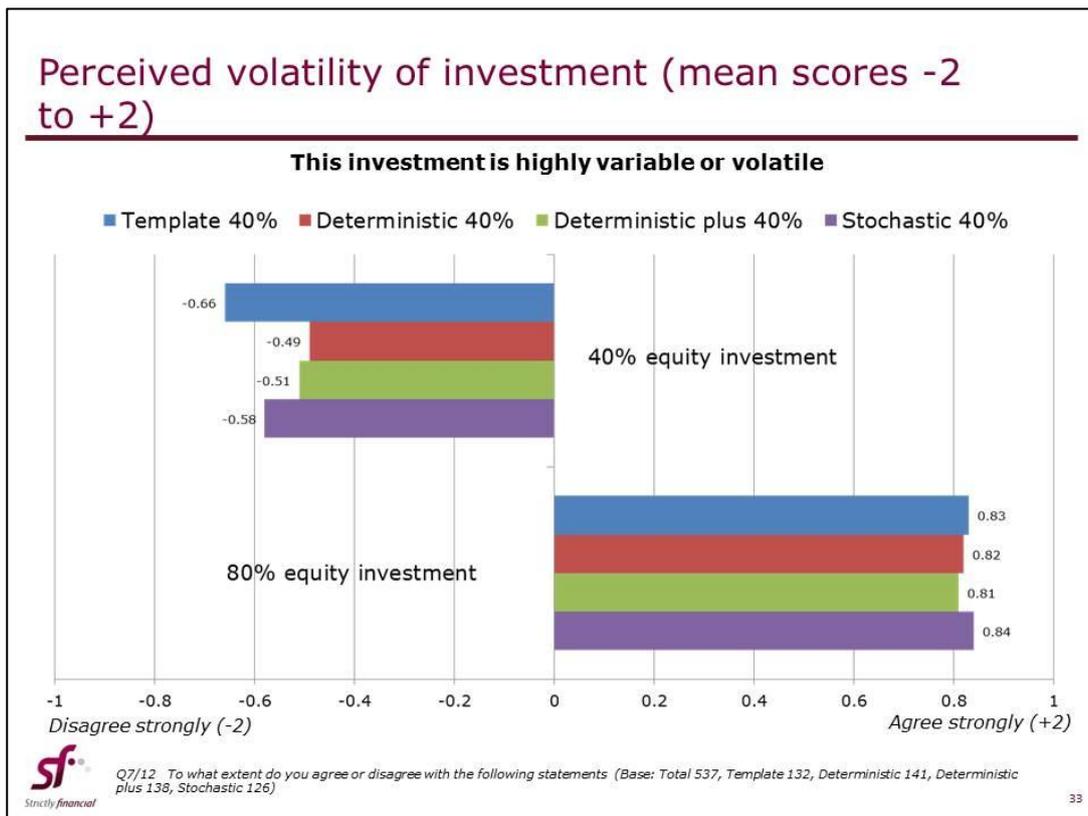


Figure 19: Perceived volatility of investment

As mentioned above, many consumers equated volatility with risk, as did some advisers, and some felt that the negative projections in the tables and graphs (and especially in the stochastic graph) communicated the inherent risk in the investment, and therefore highlighted them as conveying volatility.

“I feel better about this one because it shows the two extremes, and the growth one looks more positive than the other version” (Low-mid sophistication, C1C2, older family)

Some of the more sophisticated respondents drew a distinction between volatility and risk, seeing volatility as dynamic swings both up and down. As such it did not quite equate to risk for them, but they were very much in the minority.

#### 4.4.4 Efficacy of different presentations of risk/ reward

In the quantitative research all the versions shown were felt to convey risk and return clearly, with at least 73% or more for each version thinking it communicated these issues quite or very well.

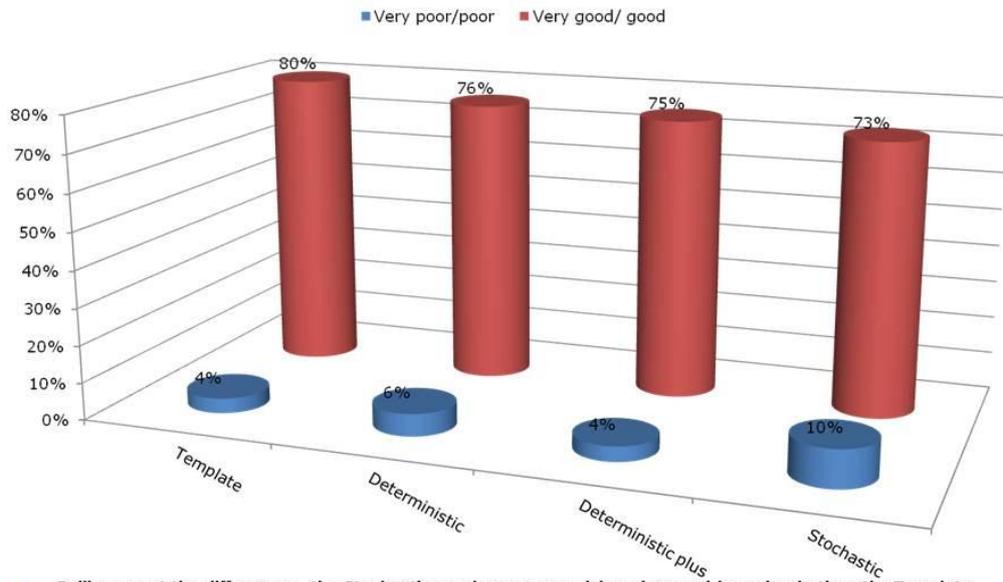


Figure 20: Understanding of risks and rewards

Interestingly, the template, with relatively little information compared to the other versions regarding reward, scored highest with 80%. This is probably because the messaging is very clear and direct, and is not subsumed by subsequent (relative) complexity in the form of projections.

The stochastic version was felt to be slightly harder to understand in terms of risk and reward than the other versions, with 10% saying their understanding was poor or very poor, compared to 6% or less for the other versions.

## Understanding of risk and rewards: Top two vs bottom two box response



**Pulling apart the differences, the Stochastic version conveys risk and reward less clearly than the Template, with little to choose between the two deterministic versions**

Q17 Overall how well do you think you understand the risks and rewards associated with this product? (Total 538, Template 132, Deterministic 142, Deterministic plus 138, Stochastic 126)

32

Figure 21: Understanding of risks and rewards

The following two charts directly compare how consumers perceive risk across versions and between the two fund versions. As can be seen in the chart below, for all versions, opinion on risk shifts between the 40% and 80% investment types showing that all versions are effectively communicating the 'right' fund risk profile to consumers.

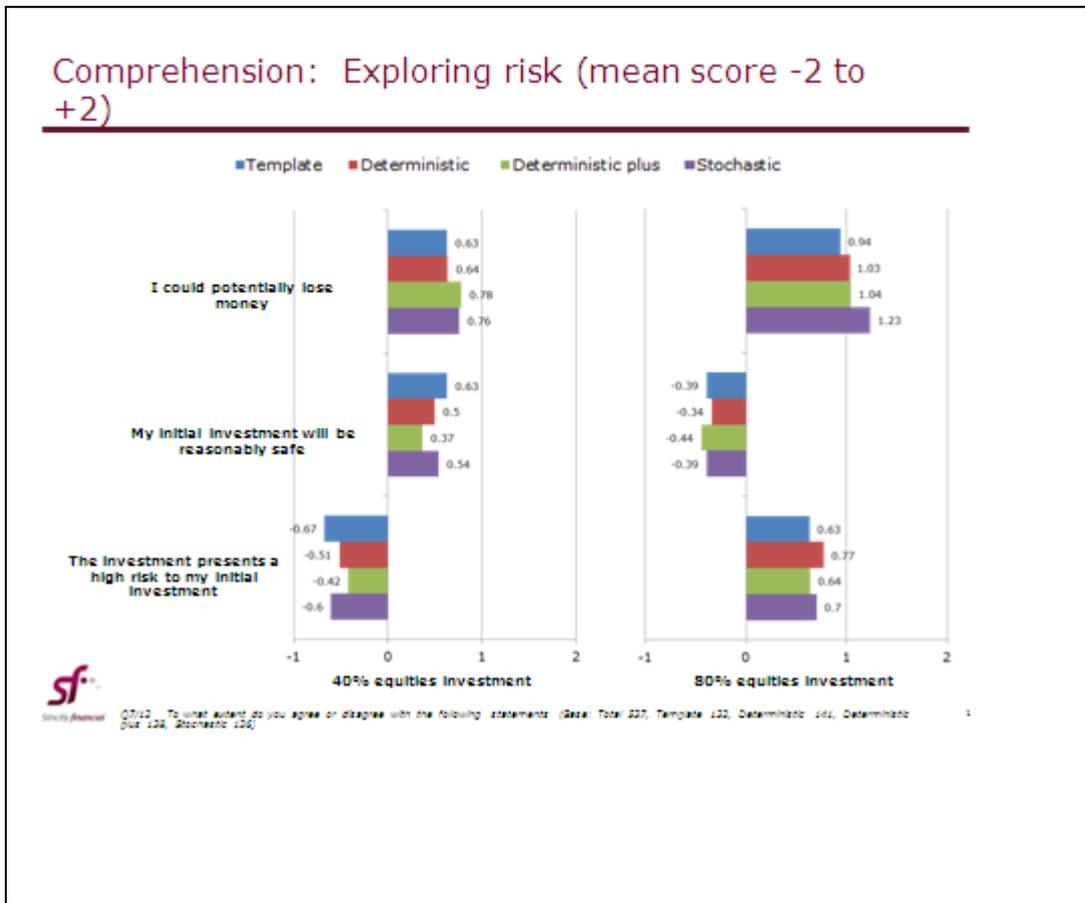


Figure 22: Comprehension of risk

Generally, the template version is seen to convey a lower risk than the other versions. For the 40% equity investment the template (without projections) scored higher than the other versions on perceived security of the initial investment. All versions receive similar scores on this dimension when reviewing the 80% investment – this suggests that consumers are making this judgement based largely on factors beyond projections information at the higher risk levels, perhaps bringing in preconceptions about equity levels etc.

The stochastic, and to a lesser extent, deterministic versions conveyed the potential to lose money more strongly vs. the template, and for the 80% fund this was a significant difference. This tallied with the qualitative research, where the potential for loss, and particularly its potential scale, were widely seen to be made more explicit in the stochastic version than in the deterministic versions.

## 4.5 Consumers' assessment and understanding of inflation

### 4.5.1 Summary

Consumers broadly understand inflation in principle, but often fail to apply that understanding to savings and investments in practice, sometimes even when they have just been reminded to do so.

Reminders of the effects of inflation and the inclusion of inflation adjusted figures in projections were welcome. But this also had a demoralising effect on consumer expectations, which could lead them to the conclusion that savings could be more effective than investments over time (partly as a result of failing to apply inflation uniformly in their comparisons).

### 4.5.2 The principle of using inflation adjusted figures

Inflation was a concept that was familiar to all the consumer respondents. However, much of the detail around the subject seemed opaque. Many seemed aware that there were different measures of inflation, but did not understand the differences between them or how they were arrived at. They were also unclear about how day-to-day price rises related to the quoted rate of inflation.

Despite this, consumers knew that inflation affects the prices of everyday goods such as food, utilities and petrol, and long-term investments like pensions. Several pointed out that pension providers sometimes show pension income in 'real terms', i.e. after the effect of inflation.

However, it was clear that this conceptual understanding was often not applied on a practical everyday basis. Inflation was seen as an insidious long-term erosion of the value of money, but because its effect was felt over time it was given little consideration at any single moment because it is invisible from one day to the next. It was, as several respondents admitted, easier to see with hindsight than with foresight.

Consequently the consumers in the research tended not to apply it to their financial thinking except at the very long-term level of pensions. There was also a degree of fatalism which emerged in discussion of inflation, and the fact that you can have no control or influence over it also seemed to be contributing to a view that simply accepted it as a fait accompli, rather than factoring it into financial thinking and planning.

Another contributing factor to consumers' passivity regarding inflation is the fact that they are not encouraged to think about it in the context of cash savings, where interest rates quoted do not take inflation into account. This point was also raised by some consumers as an argument against using inflation adjusted figures in this document, as it would make comparison difficult with competing products that did not adjust for inflation.

Because of their conceptual awareness of it and ready admission that it is easy to underestimate, consumers were very open to being reminded of the effect of inflation on investments in these documents.

"I think it's a useful reminder, and spelling it out helps. It makes you consider it more. We all talk about inflation, but we don't often stop and think about what it actually means, and this might make you do that" (Low-mid sophistication, C1C2, retired/semi-retired)

"I thought it was very well explained. I thought it was good. Some people might not think of that, that that's going to change over the length of time of the investment, and

that needs to be taken into account if you're comparing it against an ISA, you know, so you're comparing like for like" (Mid-high sophistication, BC1, pre-family)

Therefore they welcomed the presentation of inflation adjusted figures in the projections. They saw it as both a good idea in principle and a useful reminder to be given at the point of taking out an investment.

"Something it does, which is important, is take into account the effect of charges and inflation, and it's easy to forget to do that when you're trying to work out what something might return over a number of years" (Low-mid sophistication, C1C2, retired/ semi-retired)

However, a frequent reaction in the qualitative research was one of genuine shock at its impact over time. Some saw it as negating the investment's growth to the extent of making it not worthwhile to take the risk in the first place. For these consumers savings seemed more worthwhile, but in discussion it became clear that this almost 'knee-jerk' reaction underestimated or failed to consider how much the same inflation would affect such savings.

"I hadn't really considered the effect of inflation before, and I was really quite shocked at how great it was" (Low-mid sophistication, C1C2, empty nesters)

The impact of inflation was exacerbated by the way it was presented in the adjusted figures, as it was implicit in all the projection figures rather than being shown separately in a before-and-after configuration. This meant that investment growth before the effect of inflation was not shown, with the result that consumers only saw 'poor growth' (rather than decent growth which was then devalued by inflation).

"I think the table hits home harder than the graph about the effects of inflation and charges. The table has more impact" (Low-mid sophistication, C1C2, retired/semi-retired)

These figures look like they are giving you facts, but you can't predict what inflation will do" (Low-mid sophistication, C1C2, pre-family)

One possible solution, suggested by a number of consumers, was to add a separate column to the table so that it showed both unadjusted and adjusted figures. However, others thought this risked making the table too complex, and this chimes with the findings from previous research where exactly that approach had been criticised for being too cumbersome and adding unnecessary complexity to tables.

"I think it would be more transparent if they had another column saying what the charges and inflation are" (Low-mid sophistication, C1C2, pre-family)

We also observed that, in conversation, consumers frequently seemed to forget that inflation had been taken into account in the amounts projected for 1, 5 and 15 years ahead, even after acknowledging that this had been made clear in the text a paragraph or two above. This may account for some of their shock on seeing the inflation adjusted projected returns. What became clear is that any figures take precedence over text, and so the consumers' attention is likely to alight here first before reading the contextual information. The implication is that, in order to avoid consumers dismissing the investment on the grounds of poor performance, 'reminders' that the figures are inflation adjusted need to be included at key points – whilst this creates some redundancy of information, it is nonetheless important to militate against this knee jerk reaction.

### 4.5.3 Efficacy of different presentations of inflation messages

In the quantitative research the great majority thought it useful that inflation was taken into account, although there was slight variation between versions from a low of 65% for the deterministic version to a high of 72% for the stochastic version.

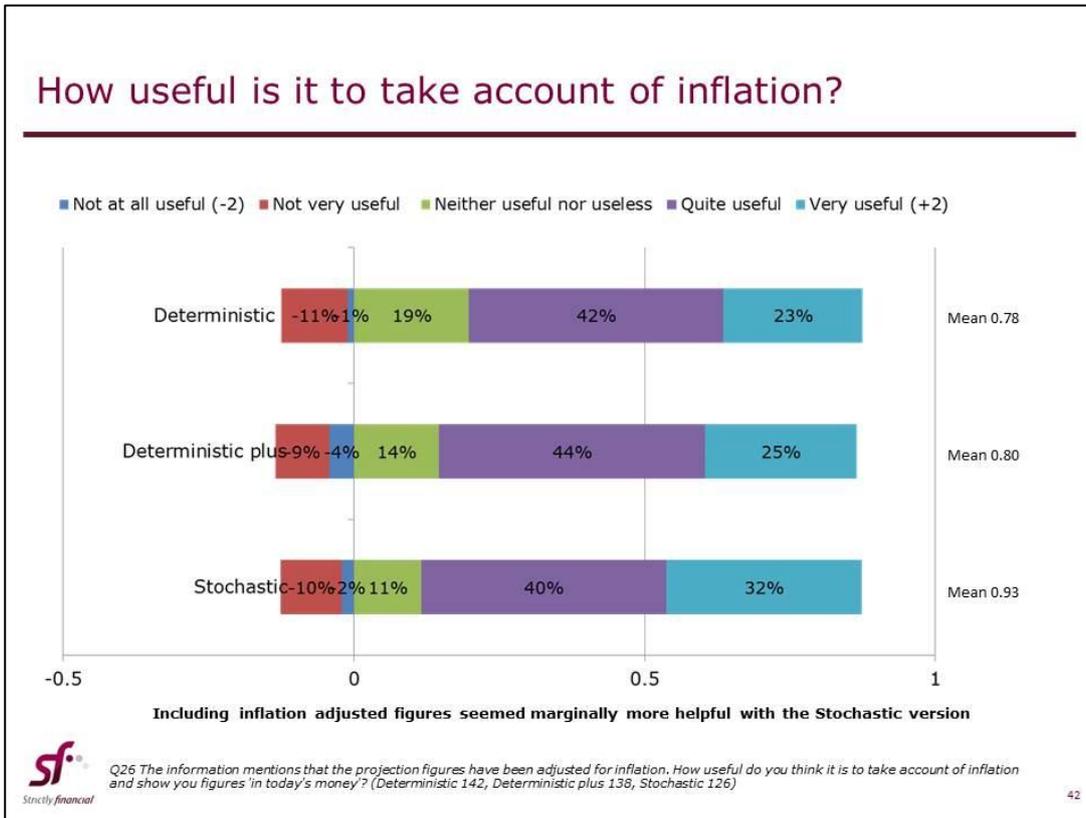


Figure 23: Usefulness of inflation adjustment

The inclusion of inflation adjusted figures was felt to be more helpful with the stochastic version – more respondents cited it as ‘very useful’ (roughly a third) vs. the two deterministic versions where a quarter or less said the same thing.

In order to assess how powerfully the different versions communicated the threat of inflation we asked respondents to assess how likely the investments were to beat inflation over 15 years.

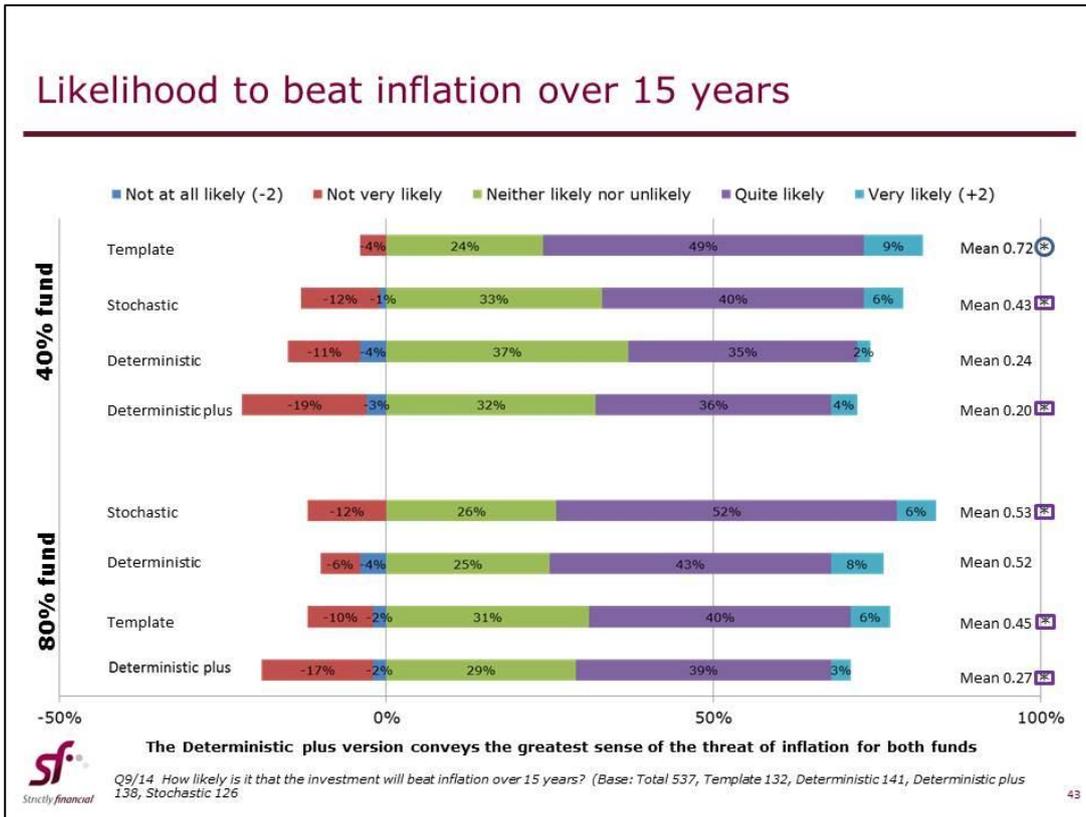


Figure 24: Likelihood to beat inflation

Interestingly for the 40% ('safe') equity investment, consumers are most optimistic that the template version will beat inflation – again we believe that in the absence of any information to the contrary, investors tend to be optimistic in their assumptions of future returns. For the 80% investment, it is the stochastic version which scores highest on the likelihood of beating inflation, in some cases significantly so vs. the other versions.

However, we know from the qualitative work that consumers' eyes are drawn to the positive figures, and this is particularly true for the 80% equity investment on the stochastic presentation where the figure shown is relatively high and therefore more attractive. This suggests that the inclusion of these 'top performance' illustrations may somewhat overwhelm the more realistic/ negative messages below.

Detailed discussion in the qualitative research of the wording in the text of the three versions which dealt with possible outcomes also made clear that the inflation messaging was strongest in the deterministic plus version. It was seen as having the fullest and most engaging wording in its references to inflation, and the combination of devoting more space to its explanation and of laying it out in simple and clear terms was thought to give it the strongest communication on this issue. Even those consumers who claimed they already knew everything contained in this text thought that it was a good explanation for new investors as well as a timely reminder for those who already knew all this information.

## 4.6 Communication of key issues

### 4.6.1 Summary

From all versions, and bringing existing knowledge to bear, consumers are able to extract basic information about certainty and term.

The omission of any projections information has the tendency to encourage a note of optimism re: potential outcomes, and for respondents to have less of an appreciation of the effect of time on the investment. Conversely, the stochastic version communicates uncertainty of outcome, and the effect of time, more clearly than the other versions, although, as we have seen elsewhere it causes comprehension issues for some consumers. Whilst the deterministic approaches are not as strong as the stochastic, they are easier to understand.

### 4.6.2 Certainty of outcome

All consumers claimed to know that, in principle, investment outcomes are uncertain, and that projections are just examples. However, in practice and among some of the less sophisticated, there was a tendency despite this to infer from the projections that the real outcome would fall between the lowest and highest figures. Our earlier quantitative findings illustrated this problem. Nevertheless, even here, they knew specific and exact outcomes were uncertain.

In order to test this, consumers were asked to state how certain they were that the outcome would be between the low-high projections or within the 80% probability band (stochastic).

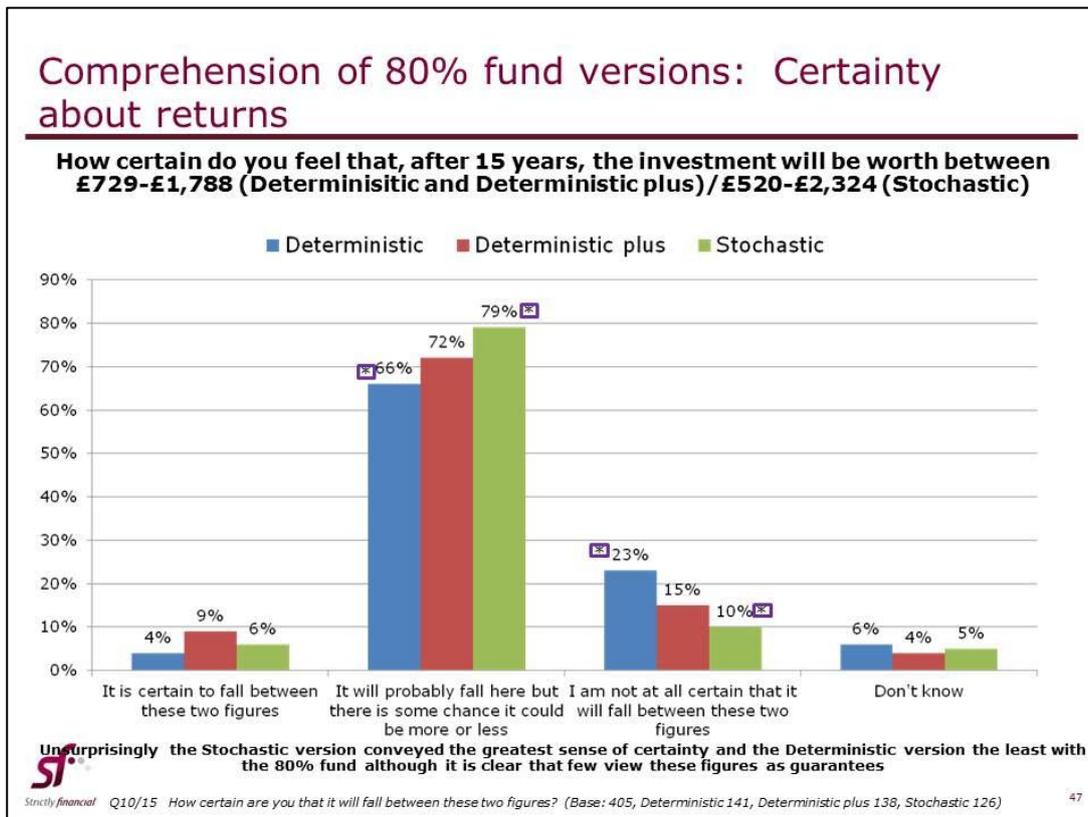


Figure 25: Comprehension of 80% fund versions - certainty of return

The likelihood that the value would probably (but not certainly) lie between a specific range of values after 15 years was the view of the substantial majority of consumers for all three versions showing projected returns, the lowest being 66% for the deterministic version and the highest 79% for the stochastic version. The stochastic was the only version showing *probabilities* of different values, and in this respect it offered consumers a guide to real-world likelihood of outcomes which the other versions did not.

It is worth noting that IFAs also thought the stochastic version was the most effective at communicating uncertainty, the reason being that it was the only version which actually showed the probabilities of various outcomes.

It is the stochastic version which most clearly communicates uncertainty, and it does so by putting a figure on the likelihood of different outcomes. Paradoxically, in doing this it instilled a greater sense of confidence in the outcome – but only for those who understood and believed its projections

#### 4.6.3 Effect of time on investment

Consumer views were mixed on how strongly the effect of time on their investments was communicated. Their sense of this was blurred to an extent because many claimed already to know that retail investments are not short term propositions. Therefore they struggled to distinguish their prior knowledge from what they were gleaned from the documents.

In practice the message was coming across, primarily from the text. In fact a common misunderstanding was that the minimum term of the investment was 5 years, with respondents mistaking the recommendation for a rule. The graphs, and particularly the stochastic graph, also contributed to the message by showing a steeper rise in the growth curve towards the 15 year mark.

In both stages of research, the effect of time was communicated most strongly with regard to a one-year investment. Qualitatively, and regardless of any misconceptions about a stipulated minimum term, it was clear to most consumers that the investment would fare better over 5 years or more – and this is confirmed by the quantitative output where most consumers feel that the investment is not suitable for a 1 year investment. In the main this message came across more strongly with the 80% equity investment, where the scores for suitability over one year were generally more negative than for the 40% equity fund. It is clear that consumers are bringing their existing assumptions to the decision (investments are generally longer, rather than shorter, term) and that this is being reinforced by the messaging in the documents.

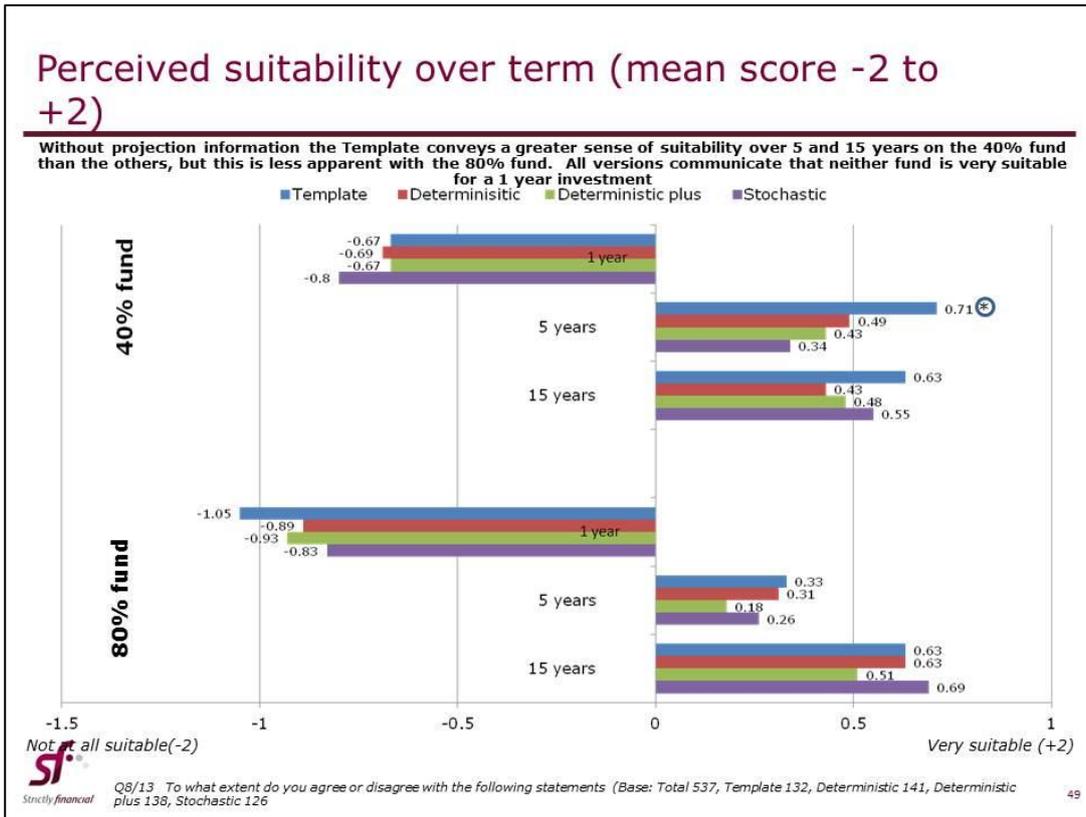


Figure 26: Perceived suitability over term

Whilst all versions are communicating increasing suitability over the long term, the stochastic version seems to convey this most consistently and obviously – there is a clear stepped increase in perceived suitability for both equity mixes between 1, 5 and 15 years. The other versions do show this increase but the differences between 5 and 15 years are less marked.

The template conveyed a greater sense of suitability over the longer term (significantly so for 5 years) for the 40% equity fund than the other versions. We know from other feedback that, in the absence of projection information, consumers’ tend to be more, rather than less, optimistic and will bring their existing prejudices to bear. The only term information they are given in the template version is focused on the 5 year point – minimum recommended term in the objectives section, and the 5 year time scale shown on the past performance graph. This information is clearly reinforcing the ‘long term’ message but creating less differentiation between the 5 and 15 year time scales (particularly for the 40% equity mix).

However, in the qualitative discussion it became clear that the negative growth projection included in some form in all three versions undermined this communication to a degree: by showing a continued rate of decline at 3% (in itself often described as unrealistic by both consumers and especially IFAs), the projections seemed to suggest that in a declining market the investor would fare better (i.e. potentially lose less) over one year than over 5 or 15. A number of consumers remarked on this and made the point that it ran counter both to received wisdom and to the messages in the text about 5 years being a recommended minimum investment term.

In conclusion, all versions are clearly indicating that 5 years is the minimum suitable term, but that the stochastic version is most successful in communicating the effect of increasing term on the investment.

It was widely felt that messaging about term was communicated less strongly than those of risk to capital and uncertainty of outcome. Because the latter messages were coming across so strongly, they had the effect of swamping the message about time.

“It’s in there, and you notice it. But the other stuff makes a bigger impression” (Low-mid sophistication, C1C2, retired/semi-retired)

## **4.7 Ease of decision making**

### **4.7.1 Summary**

Consumers claim that, in all cases, they find it relatively easy to choose whether to invest – although those with less financial knowledge and who have a more conservative outlook feel less comfortable. Younger respondents tend to be more gung ho, with older (and more experienced) individuals valuing the reassurance of professional advice more (we know that as age increases, people tend to feel that they can afford to take fewer risks with their money). The brevity of the template version encourages confidence in the ability to comprehend the information and thus in decision making. The stochastic version performed well regarding respondents level of on comfort in using it to make decisions but it was also more divisive, with more consumers occupying the extremes of the comfort spectrum.

Once again, deterministic plus seems to occupy the middle ground.

### **4.7.2 Choosing whether, and how much, to invest**

The majority of consumers (around two thirds or more depending on version seen) claim that, using the information provided, they would be very/ quite comfortable making the decision whether these investments were suitable for them without the benefit of advice. Unsurprisingly, those consumers who are less financially confident, and who have a more conservative attitude to risk are generally less comfortable making the investment decision on their own.

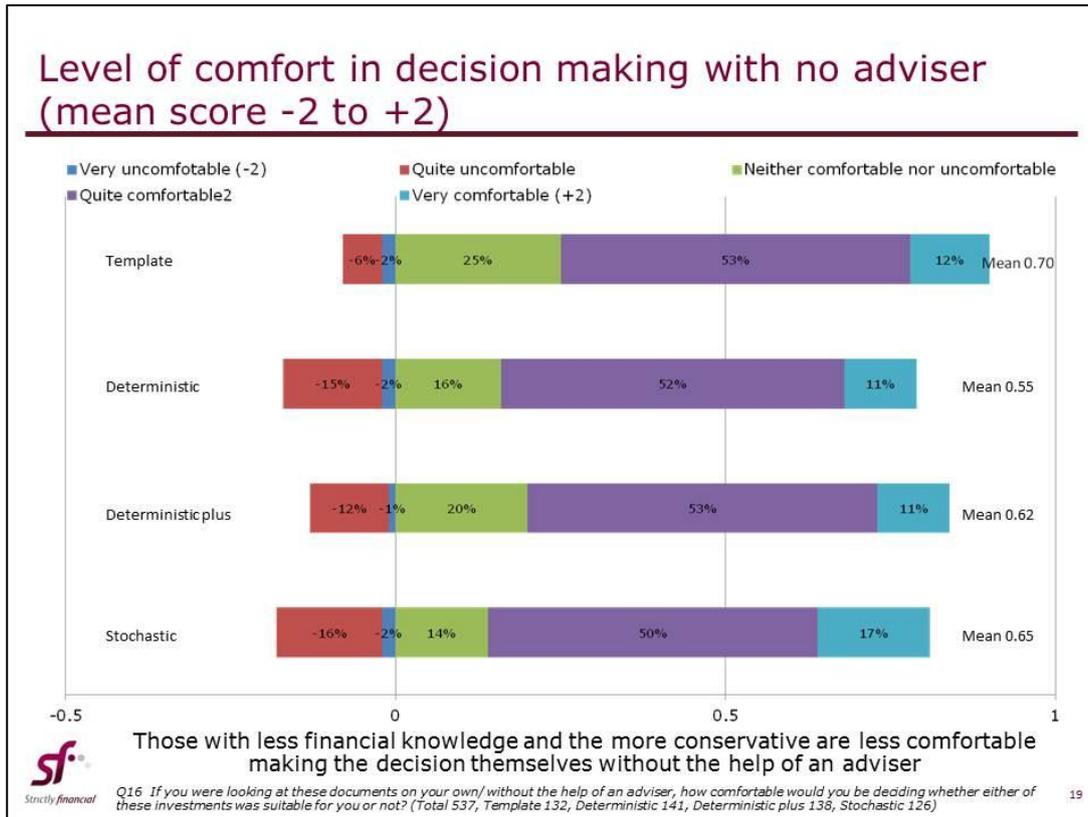


Figure 27: Comfort in decision making

As can be seen in the chart above, those who saw the template version claim to be most comfortable overall – this is the shortest and simplest approach tested, and consumers feel that they do understand all of the information which increases their confidence. However, as we have seen earlier, the absence of projections information makes respondents more optimistic than would otherwise be the case, and so we do need to question whether the degree of comfort expressed by consumers who saw the template is, perhaps, slightly misplaced.

Consumers seeing the other three versions express a lower degree of comfort overall. Interestingly, when comparing responses to the deterministic vs. the deterministic plus approach there is a suggestion that a lack of explanation introduces a lesser degree of comfort, whereas including a more detailed narrative in the document increases this.

Once again we can see that the stochastic version is more polarising, with more people sitting at the two extremes of ‘very comfortable’ and ‘very uncomfortable’ than for other versions. Again, this suggests that for some consumers the stochastic approach is working well but others are struggling to engage with, and comprehend, the information as presented in the material.

Respondents were then asked how easy it would be to decide the amount of money to invest. Across all versions, well over half of respondents said it was ‘quite easy’ or ‘very easy’ to decide how much money to invest. However, whilst there were no significant differences between versions seen, both the stochastic and deterministic versions have fewer people answering ‘neither easy nor difficult’ and more saying ‘very/ quite easy’.

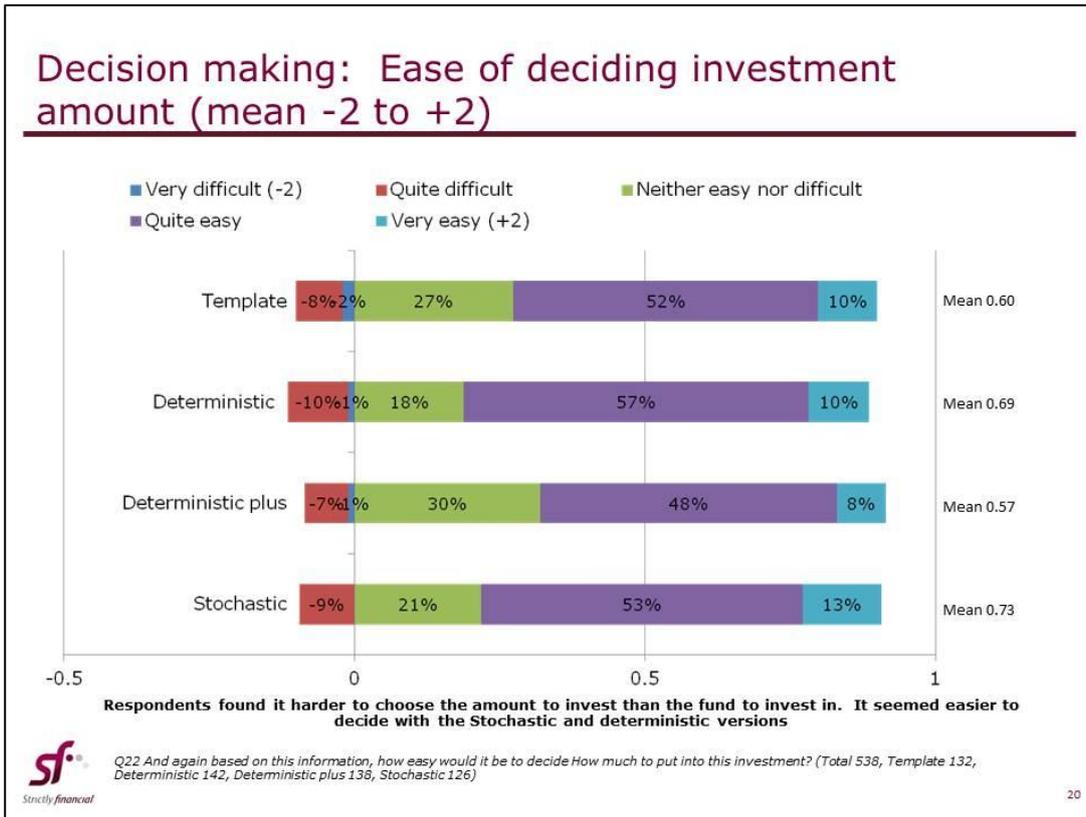


Figure 28: Ease of deciding investment amount

Turning to decisions about length of investment, for all versions, the majority of respondents said it was ‘quite easy’ or ‘very easy’ to decide how long to invest. However, the stochastic version seems to help consumers more when thinking about the timescale commitment they may want to make.

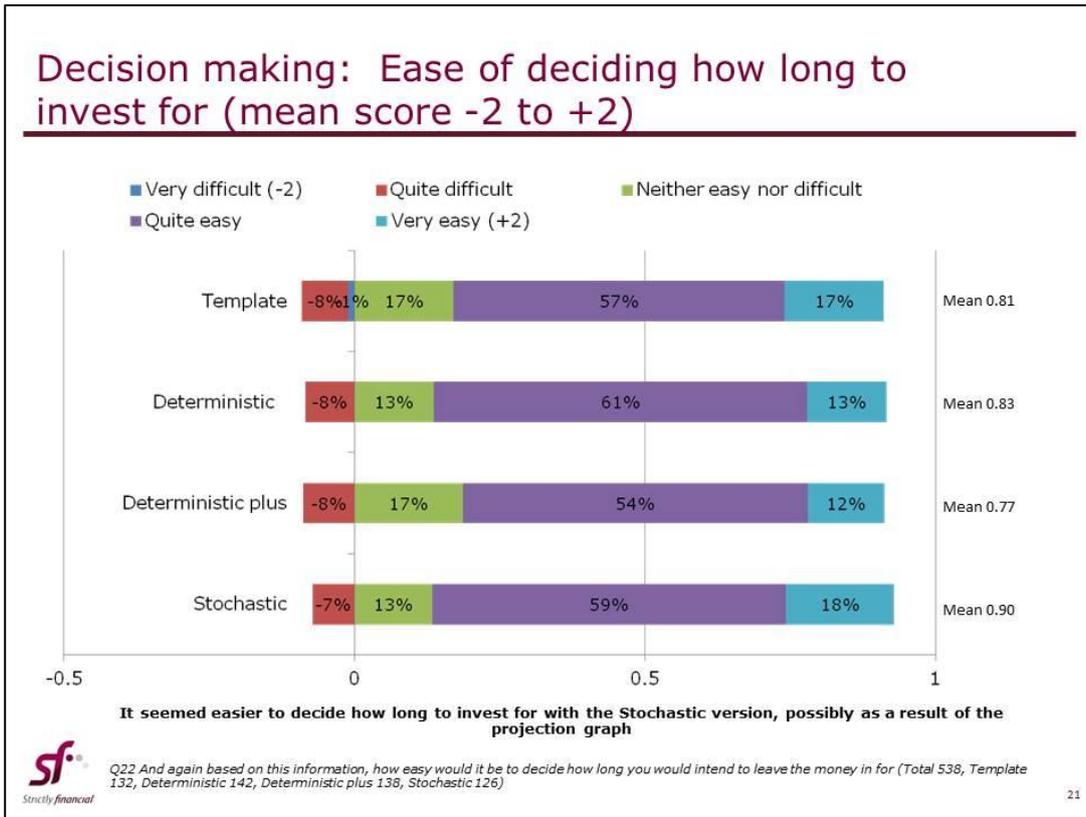


Figure 29: Ease of deciding length of investment

This is perhaps unsurprising, as the stochastic graph clearly shows the compounding effect of growth (and to a lesser degree, potential loss) in both visual and tabular form. The information is presented in a more linear way in the deterministic versions and so the impact of term is less obvious.

#### 4.7.3 Choosing between investments

Consumers in both the qualitative and quantitative research thought the documents made it easy to choose between the 40% and 80% equity investments, with at least 69% in each case claiming that they found it quite or very easy.

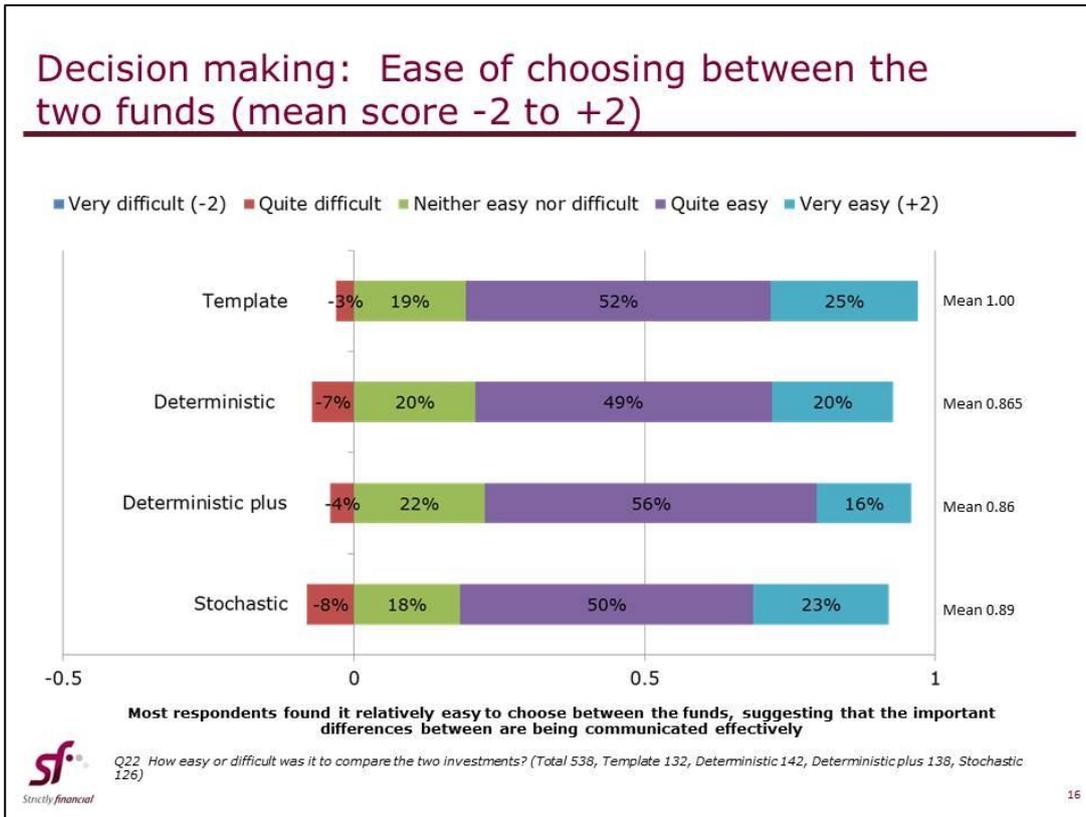


Figure 30: Ease of choosing between the funds

This was borne out from the qualitative research where individuals very clearly and quickly identified the higher vs. lower risk funds and were able to make a very quick ‘suitability’ decision. This was driven by various risk information points throughout the documents. The suggestion is that when selecting between two funds of similar risk profile, the past performance and projections information will take on more importance and consumers will use this to identify nuances between the two funds. We would expect to see a similar split of investment selection (40% vs. 80% equity mix) across the versions. However, the relative lack of information in the template encouraged caution, with 70% choosing the less risky 40% equity investment, and 30% the more risky 80% equity investment. This compares with the stochastic version, where the proportions were 52% and 48% respectively.

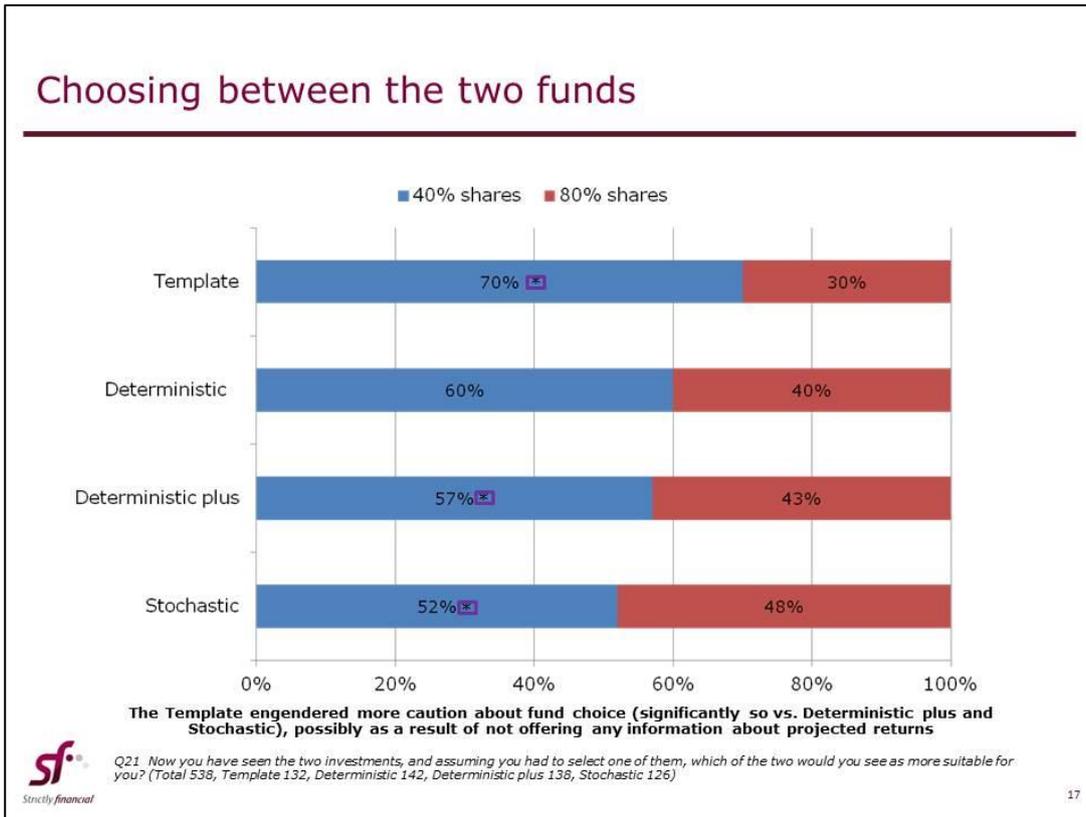
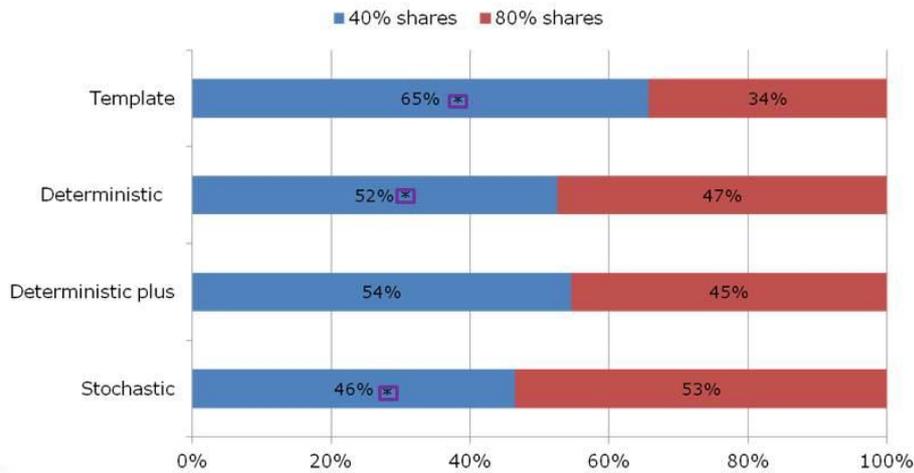


Figure 31: Choosing between the two funds

Looking at this more closely by (self-defined) attitude to risk (see chart on page 63), it appears that the relative lack of information in the template is having most influence on those who see themselves as having a moderate attitude to risk, inclining them to a cautious approach. Those with a naturally greater or lesser appetite for risk seem less affected. This may imply that the provision of projections information helps people to be more at ease with increased risk, because they have a greater awareness of the potential returns. This may merit further exploration in other research, not least given the small sample sizes in this case.

## The effect of version on funds selection: Moderate attitude to risk

Whilst the bases for each version are very small for risk takers and conservatives and so no firm conclusions can be drawn, it appears that these respondents are behaving as expected. However, when looking at the behaviour of those with a moderate attitude to risk, statistically more people are selecting the 40% fund when shown the Template version (possibly due to lack of information) vs. the Deterministic and Stochastic where statistically more people are selecting the 80% fund



Q21. Now you have seen the two investments, and assuming you had to select one of them, which of the two would you see as more suitable for you? (Base – all with a moderate attitude to risk 342, Template 81, Deterministic 97, Deterministic plus 87, Stochastic 77)

18

Figure 32: Effect of version on fund selection

## 4.8 Including additional information and complexity: impact on comprehension and perceived usefulness

### 4.8.1 Summary

Overly simplistic approaches run the risk of consumers' omitting to include key information in their decision making, which may result in a partially informed decision and overly optimistic view point. However, overloading consumers with complex figures and information is also counterproductive, and whilst welcomed by the more sophisticated may actively alienate other, less confident, individuals and impede their ability to comprehend investment nuances.

### 4.8.2 Basic information, no projection figures (Template)

For the advisers, and the most sophisticated consumers, the template was deemed to provide sufficient information to make an informed investment decision. However, for most of the consumers its lack of projection information counted against it.

Overall its strengths were:

- It was short and concise, at a total of two pages more so than any other version.
- It avoided any complexity, largely by sidestepping the inclusion of projections and thus was easy to understand.

Its weaknesses were:

- Its lack of 'balance'.

- Tonally negative and focused on risks/ warnings (which reduced overall interest).
- Its lack of projections information, which consumers want to have included.
  - They were seen to offer positive potential to offset the negativity of the rest of the document.
  - The sense of what the investment outcome might be is highly desirable to most consumers.

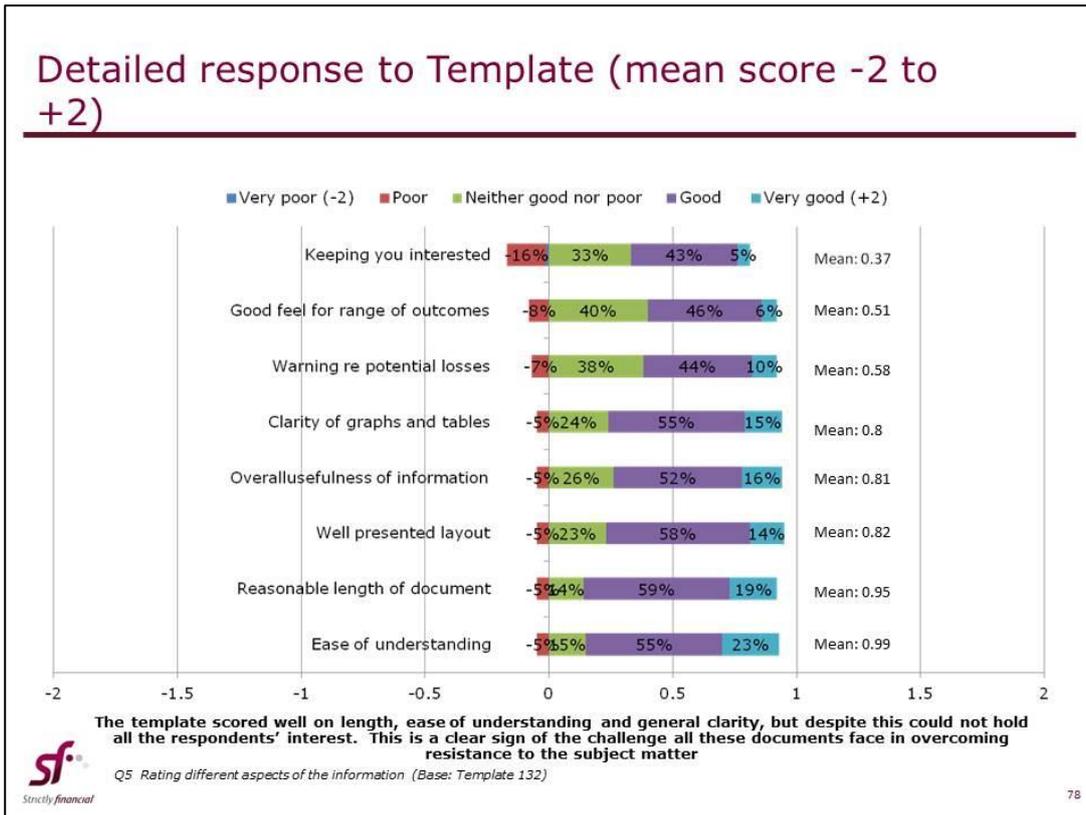


Figure 33: Detailed response to Template

Confirmed in the quantitative research, the template scored well on length, ease of understanding and general clarity, but despite this could not hold all the respondents' interest - this is a clear sign of the challenge all these documents face in overcoming resistance to the subject matter.

The differences between the two investments came across clearly in terms of risk and volatility. However, without projections, the template scored poorly for alerting the reader to potential losses or giving a good feel for the range of outcomes. This led to both increased conservatism in terms of investment choice, which may ultimately mean that the fund selected is inappropriate for the intended purpose, as well as a degree of over-optimism re the potential outcome (in the absence of contradictory information).

All the key information it contained was seen as useful, but just under half of respondents wanted additional information and 11% said they found something confusing or hard to understand in the template. In practice the lack of information raised fewer questions in the quantitative research than the greater amount of information contained in the other versions. The main elements perceived to be missing or requiring further clarification included information on where the money is invested, degree of risk and projected returns.

### 4.8.3 Current FCA guidelines (Deterministic)

The deterministic version was preferred by consumers in the qualitative research to the template because it provided the projections which were missed in the template.

Overall its strengths were:

- With only one additional page it was still felt to be a good length.
- It provided a sense of possible investment returns.
- It offered a better balance than the template between the potential for loss vs. the potential for return.

Its weaknesses were:

- It was thought to lack clarity compared to the deterministic plus version.
- Its inflation messages were lost among the other messages.

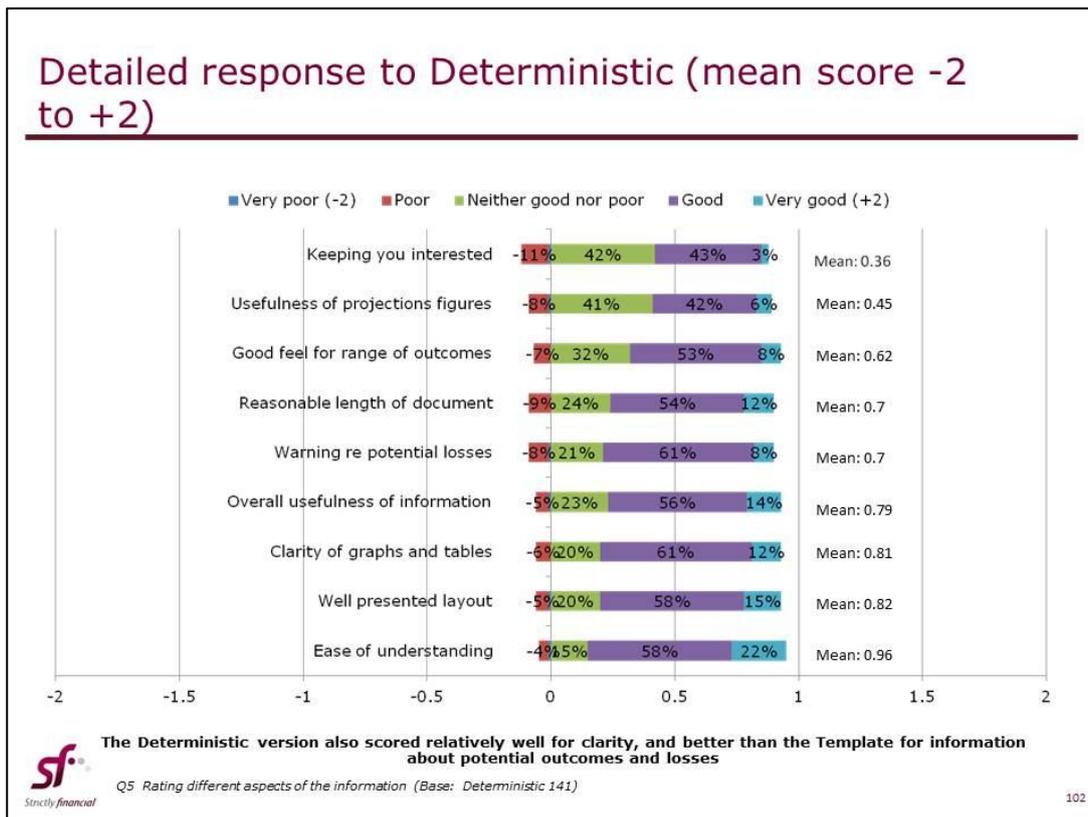


Figure 34: Detailed response to deterministic

This version also scored relatively well for clarity and poorly for interest. However, it performed better than the template for information about the range of outcomes and the potential for loss. Thus the current regulatory framework does ensure that consumers gain some sense of the future potential of the investment, although it is clear that usefulness of the projection information can be improved: 49% found them useful or very useful, compared to 70% finding the overall information content useful or very useful.

As with the template, half the respondents thought the deterministic version gave them the information they needed to make a selection, and the key information weakness was in the detail of the investment. 11% of consumers said they found something confusing or hard to understand in the deterministic version. The main areas mentioned were the growth rates, the overall length and density of the text, and the relationship between the projections and the initial £1,000 investment example.

The deterministic approach is a step up from the template without projection information, but the responses from both phases of research indicate that there is potential to improve communication in key areas.

#### **4.8.4 Enhanced FCA rules, including additional warnings and explanations (Deterministic Plus)**

This was, on balance, the preferred version for many consumers. It largely addressed the perceived weaknesses of the template and deterministic version, and was not as divisive as the stochastic version. It also had the advantage of familiarity – the look and feel of the document was similar to existing financial information (although with improved length and clarity) and so consumers felt able to navigate around the document relatively easily. Of all versions, this seemed to be the most successful at communicating ‘in the round’ – whilst not the ‘best’ in many areas, it was relatively consistent in imparting details and information in a comprehensible format.

Overall its strengths were:

- Like all the deterministic versions it was relatively familiar.
- The inflation message was communicated very clearly.
- Risk, and potential for loss were also made relatively clear, although there still seemed to be some scope for unwarranted levels of confidence in the returns to creep in.
- The prominence of its warnings to ensure the projections were not misconstrued.
- The inclusion of both a table and a graph, which was seen to be desirable.
  - Catering for all preferences about the presentation of this information
  - And introducing visual interest, thus making it easier to engage with

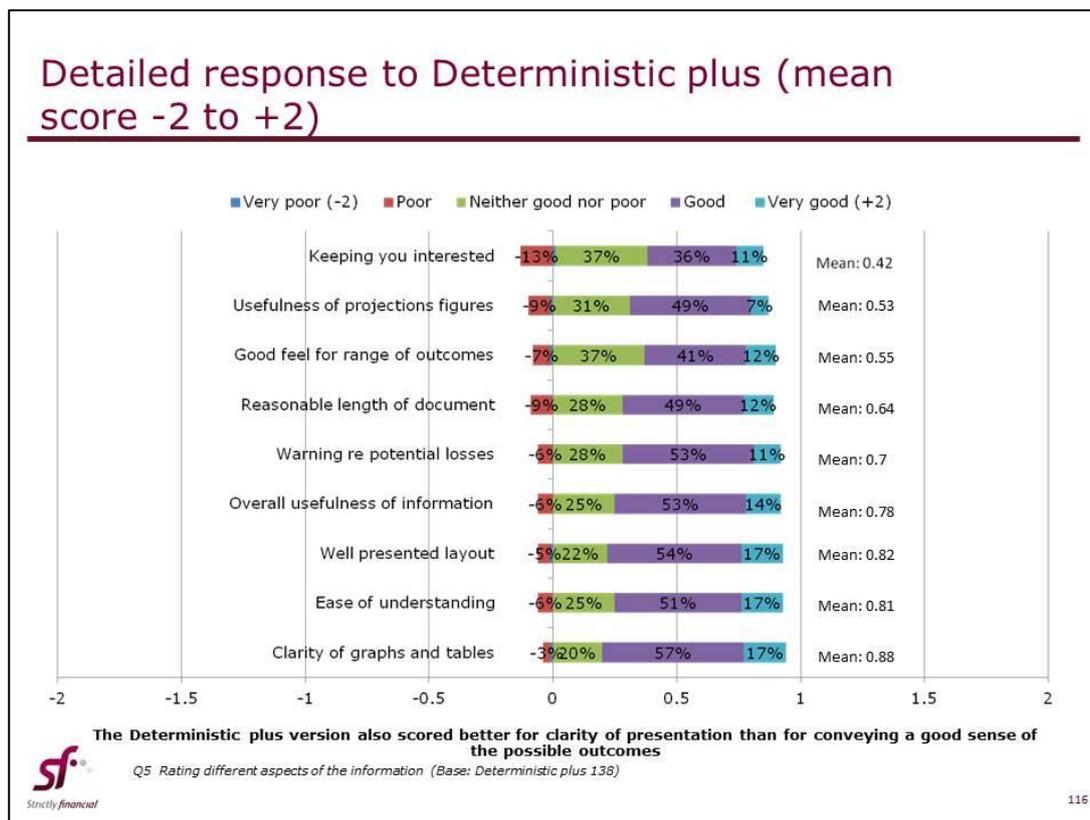


Figure 35: Detailed response to deterministic plus

Whilst the score for maintaining interest was in absolute terms still low it was higher than for either of the previous two versions discussed. The graphs and tables were clear (73% rating them good or very good) and the document easy to understand, with a well presented layout and useful information. Consumers also understood that there was potential for loss, with two thirds rating this aspect as good/ very good.

Again, 50% of consumers thought this version gave them all the information they needed to make a selection, and for the remaining respondents the main missing information was detail of the investment, which emerged particularly strongly with this version compared to the others.

Only 8% of consumers said they found something confusing or hard to understand - the lowest of all the versions tested. The main area mentioned was further explanation of the growth rates used.

#### 4.8.5 Alternative (non FCA) approach (Stochastic)

This version was divisive and generated polarised responses: most consumers and advisers were strongly for or against it, with very few remaining noncommittal.

Overall its strengths were:

- It was the most visually interesting.
- It was the most effective version at communicating risk/ potential for loss and uncertainty of outcome.
- For some it provided the greatest breadth of information and the most useful information.

Its weaknesses were:

- More than any other version, some consumers were unable or unwilling to engage with it.
  - Both at first glance (looks visually ‘difficult’ and complex) and with the detail (esp. the figures)
- It was the most difficult for many to understand, and some really struggled with it.
  - Some alien concepts, and difficult ‘maths’
  - Fails to deliver clear direction, leaving too much up to the consumer’s interpretation
- It was seen as the most complex.
  - And consumers’ require more reassurance that the underlying assumptions are genuine and the projections are realistic

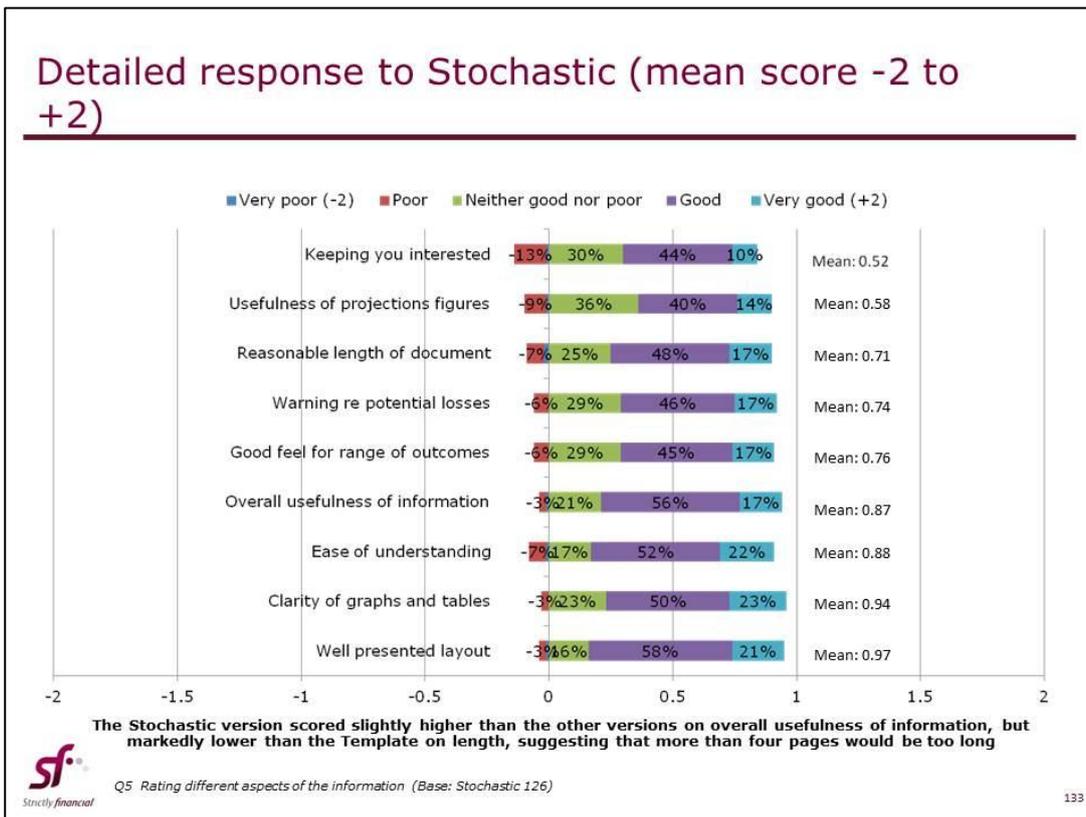


Figure 36: Detailed response to stochastic

Overall, the stochastic version performs better than the others on nearly all dimensions. Layout, clarity of graphs and tables and ease of understanding were praised, and this version was most likely to maintain consumers’ interest – this was due to the visual interest introduced by the stochastic graph. This version also performed well in terms of giving respondents a good feel for the range of outcomes. However, it was clear from the qualitative research that this version was more polarising – whilst more people liked it, more also disliked it – on various dimensions.

Once again, 50% thought it told all they needed to know in order to make a fund selection and the main missing information was detail on the investment. However, 16% of consumers said they found something confusing or hard to understand in the stochastic version. This was the highest of all the versions, and consumers mentioned a greater range of issues – including the charts and graphs, the terminology used, the level and detail of risk, the charges and what rate of inflation was used in the projection calculations. Again the relationship of the projections to the initial £1,000 was felt to be unclear.

Ultimately, whilst this approach gives consumers' more information, some faced more challenges understanding it and extracting the key information. The real danger is in the polarised response – whilst a proportion of consumers welcome the information, another proportion will simply not make the attempt and so will effectively become disengaged from it. However, it must be said that this research only tested one way of presenting stochastic information. More research is needed to establish if the issues raised by respondents could be remedied by adopting a different approach to presenting this information, for example, reducing the number of figures or using an interactive approach.

## **4.9 The adviser view**

### **4.9.1 Summary**

Generally speaking advisers echoed feedback from consumers re levels of knowledge and understanding, and the ability to engage with complex material. Perhaps the most striking difference was that advisers welcomed the simplified version which excluded projections information – they were concerned that the figures would raise unwarranted expectations with individuals interpreting them as certainties rather than indications. Whilst projections are useful for comparison purposes, they are less useful as predictors.

### **4.9.2 Inclusion of projection information**

In contrast with consumers, the advisers were wary of including projection information in mandated documents, and they had three main reasons for this. First, they saw a risk that projections could create unwarranted expectations of return amongst their clients. Second, that the 'smoothed' nature of projections makes these expectations unrealistic and downplays potential volatility (and therefore risk). And third, that consumers may misinterpret the information. Several advisers made the point that they had seen all of these reactions among their clients, and they viewed them as 'not uncommon'.

It may well be that part of the advisers' motivation for saying this was to protect themselves from subsequent complaint by clients in the event of disappointing returns, but whatever the reason the issue for them came down to removing the risk of misinterpretation and unreasonably heightened expectations.

The IFA view of projections was that they are genuinely, but only, useful for making direct comparisons between the charges, and the effect of charges over time, of different investments.

*"It's useful because it shows you what the effect of those charges is, given a certain growth rate assumption, but the problem is that a lot of clients, and in my experience it will be when the client looks at that illustration, they think that's a projection. They think that's a promise" (IFA)*

In their view there were other ways to compare charges and their effects over time than by including projections, and although clients liked to see them the IFAs were much less in favour. They also thought, based on their experiences in the company of clients, that the risk of misinterpretation by consumers was greater if they were not using an adviser.

They tended to agree with the consumers that the use of precise, and apparently accurate, figures was likely to contribute to consumers' propensity to misunderstand the projections.

#### 4.9.3 Presentation of risk, reward and volatility

The IFA response on risk and reward was broadly parallel to that of consumers. They were similarly split on the appropriateness of a 1-7 scale, with several saying that 1-5 or 1-10 were almost industry norms. However, they all agreed that the presentation of the scale was clear.

Some expressed concerns as to how the risk and reward ratings would be assessed, and specifically how this might vary between providers. Their concern was that investments might be assessed differently, and therefore investments with genuinely different risk and reward potential might nonetheless be given the same score. The scale would mask these differences, which could be misleading to consumers (and even possibly advisers).

Advisers saw educating their clients about volatility as important, and welcomed the inclusion of the past performance graph because it naturally led to a conversation about volatility. In addition the advisers thought that consumers would be looking for past performance information, and therefore saw the inclusion of the past performance graph as a good idea. They were quick to spot the lack of clarity over discrete versus cumulative presentation, and suggested clearer labelling so that advisers did not need to make assumptions and consumers could not be misled by the graph. Like the consumers they thought some sort of relevant benchmarking of performance would be helpful in this graph.

"We measure risk on a scale of one to ten with clients, but then when we get the KIDS document out, we've got to start working out what that is on a scale of one to ten" (IFA)

"I suspect that if someone else looked at it they may not know that it is discrete calendar years, so it might be worth specifically stating" (IFA)

#### 4.9.4 Using inflation adjusted figures

The IFA view on inflation and the degree to which their clients take it into account broadly reflected what the consumer respondents said: namely that it tends to be under-estimated, either not taken into account at all without a reminder, or not taken into account sufficiently even when people are factoring it into their calculations.

IFAs therefore thought it a good idea to include inflation adjusted figures in order to give people a clear indication of the likely real value of their investment in 5 or 15 years' time. However, a number of them also pointed out that clients were likely to forget that figures presented were inflation-adjusted without being constantly reminded. This too reflected the consumer response seen in the research. Like the consumers, several suggested showing two columns of figures in the projections table: one showing unadjusted figures, and the other showing figures adjusted for inflation.

"I think it's good to focus people's minds on the effect of inflation. Inflation is the thing that will probably hold their investments back most. It's just not considered. Clients don't consider the effect of inflation, and we've had high inflation. We've still got high inflation. We hope it will go lower, but every year it's eating into the buying power of money. I don't think clients focus enough on that" (IFA)

## 5. APPENDIX

### 5.1 Methodological appendix

- All fieldwork conducted January to March 2013

#### 5.1.1 Consumer qualitative

- Mixed methodology according to client location and availability
  - 12 x group discussions of two hours with respondents of low-mid and mid-high financial sophistication
  - 12 x face to face depth interviews lasting 1 hour with respondents of higher financial sophistication
- Covering a range of financial sophistication, lifestage and geography
  - London, Birmingham, Bristol and Manchester
  - Mixed sex, range of pre-family to retired/ semi-retired
- All respondents to be recent (within the past 12 months) or imminent (within the next three) investors

#### Groups structure and stimulus rotations for pre-placements

	Life stage	Sophistication	Stimulus rotation
1	Pre/no kids (mainly singles)	Low/ mid (C1C2)	T+F
2	Pre/no kids (mainly singles)	Mid/ high (BC1)	T+W
3	Pre/no kids (mainly married/ cohab)	Low/ mid (C1C2)	T+S
4	Pre/no kids (mainly married/ cohab)	Mid/ high (BC1)	T+F
5	Family (pre-school/ primary age kids)	Low/ mid (C1C2)	T+S
6	Family (pre-school/ primary age kids)	Mid/ high (BC1)	T+F
7	Family (secondary school kids)	Low/ mid (C1C2)	T+W
8	Family (secondary school kids)	Mid/ high (BC1)	T+S
9	Post/older no kids (mainly working/ semi-retired)	Low/ mid (C1C2)	T+W
10	Post/older no kids (mainly working/ semi-retired)	Mid/ high (BC1)	T+S
11	Post/older no kids (mainly retired/ semi-retired)	Low/ mid (C1C2)	T+F
12	Post/older no kids (mainly retired/ semi-retired)	Mid/ high (BC1)	T+W

#### Depths

1-12	Mix	Very high (AB)	1-4: T+F 5-8: T+W 9-12: T+S
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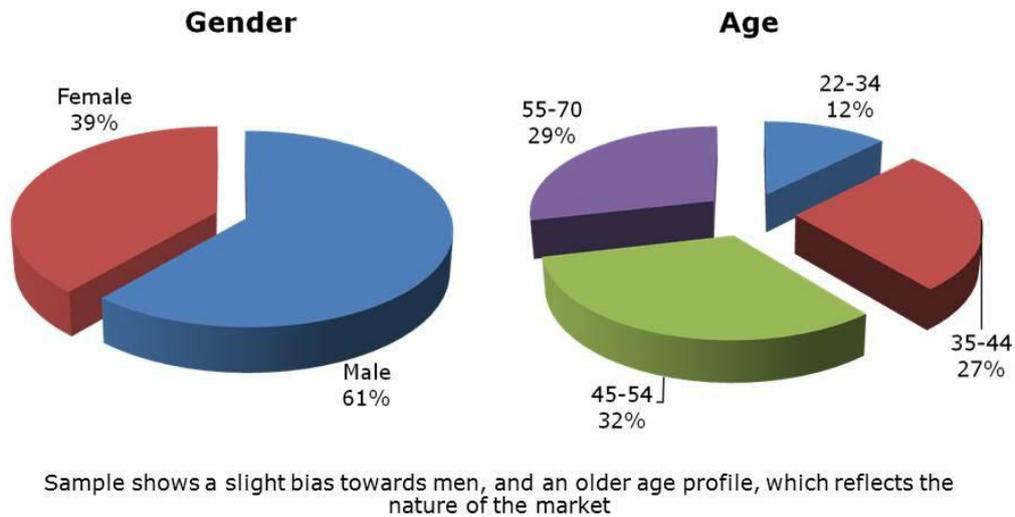
Figure 37: Consumer qualitative group structure

- Stimulus nomenclature
  - Version T – template version
  - Version F – template plus addition of FSA’s current projections information
  - Version W – template plus current FSA plus additional warnings
  - Version S – template plus addition of stochastic modelling figures

### 5.1.2 Consumer quantitative

- Online methodology with 537 consumers
  - 20 minute questionnaire with four separate samples
- Each sample saw a single version of the stimulus, either:
  - Template: 132 respondents
  - Deterministic: 141 respondents
  - Deterministic Plus: 138 respondents
  - Stochastic: 126 respondents
- And two fund iterations which were rotated across the sample
  - Mixed Investment 40% Shares
  - Mixed Investment 80% Shares
- All respondents were:
  - Main or joint financial decision maker
  - Aged between 22-70
  - Had taken out/ invested in a qualifying product in the last 12 months, or were seriously considering investing in a qualifying product in the next three months
- Mixed gender, but with bias towards males
  - Reflecting market reality
- Range of age, geography and financial sophistication

## Quantitative: Sample profile

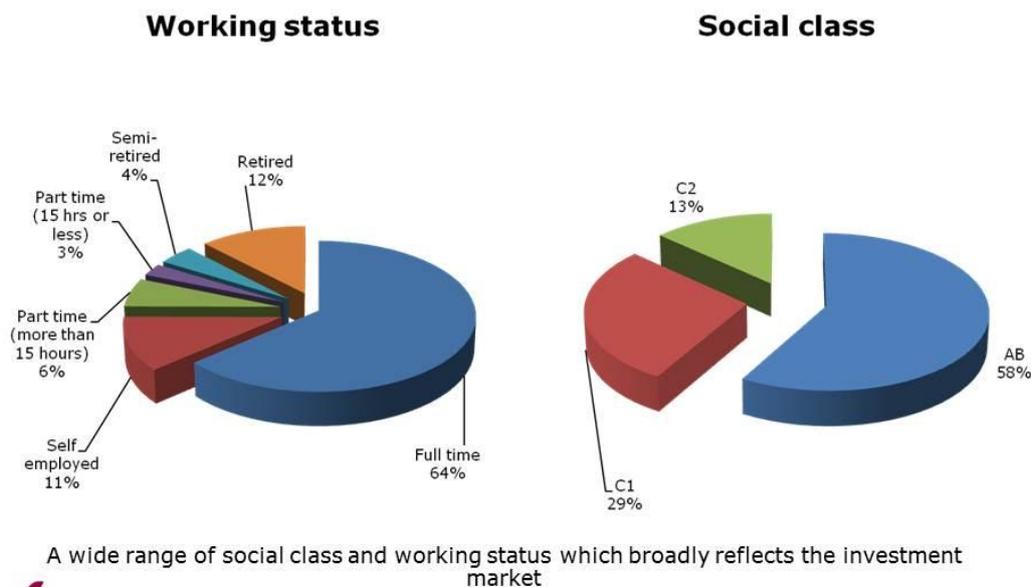


RQ1 & 2: Gender and age (Base: 537)

7

Figure 38: Consumer quantitative sample profile

## Quantitative sample profile: Working status

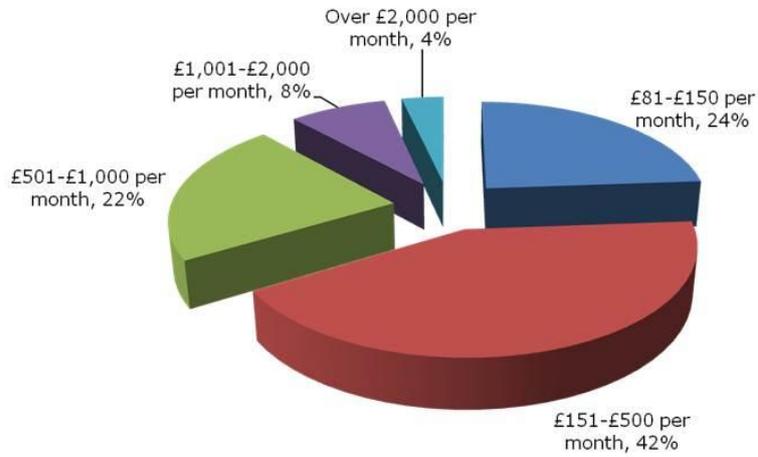


RQ3 & 4: What is your current work status and occupation (Base: 5387)

8

Figure 39: Consumer quantitative working status

## Sample profile: Contribution levels



Those with less money to invest are more likely to have a conservative attitude to risk, and generally seem to have lower levels of financial knowledge overall



RQ11 Overall monthly contributions to investment products (Base: 537)

9

Figure 40: Consumer quantitative existing contributions to investment products

### 5.1.3 Adviser research

- 8 x 1 hour face to face depth interviews with IFAs in London, Birmingham and Manchester
- All placing investment business

## 5.2 Research materials

Below are examples of the research materials used in the quantitative phase of the research.

### 5.2.1 Template (used solus, and as first two pages on other examples)

#### Key Investor Information

This document provides you with key information about this investment. The information is required by law to help you understand the nature and risk of this investment. You are advised to read it so you can make an informed decision about whether to invest.

### Mixed Investment 40% Shares

**Objectives and investment policy**

The aim of this investment is to generate modest growth (returns) in the money that you invest (your capital) with relatively low risk. There are various different ways we can invest your money, including buying shares in companies, investing in bonds (investments which pay a set rate of interest) issued by companies and governments or investing in cash.

This investment is given a relatively low rating on the risk/reward scale (see below) because it does not hold more than 40% in shares. The rest is typically held in bonds and cash.

This investment is not suitable for people who may want to withdraw their money within 5 years. However, you can withdraw money if you wish.

The minimum you can invest at the start is £1,000. Any following investments must be a minimum of £100.

**Risk and reward profile**

Lower risk ← → Higher risk  
Lower reward (returns) Higher reward (returns)

1	2	3	4	5	6	7
---	---	---	---	---	---	---

The risk/reward category is calculated using historical performance data and may not be a reliable indicator of the investment's future risk/reward profile.

The investment is given a category 3 rating because it is invested in assets which are chosen with the aim of limiting the potential risk. However, your capital (the money you invest) is not guaranteed.

The risk/reward category is not guaranteed and may change over time. The lowest category does not mean risk-free.

The indicator opposite does not take into account the following risks:

**Credit:** the company or government that issues the bond may not be able to pay the interest due (this is known as defaulting). The value of bonds may fall as default becomes more likely. High yield bonds generally offer higher returns because of their higher default risk and investment grade bonds generally offer lower returns because of their lower default risk.

**Liquidity:** the value of the investment may fall if some assets (for example shares in particular companies) become more difficult to sell because of poor stock market conditions or a lack of demand.

**ABCINVESTMENTS**

#### Key Investor Information

**Charges for this investment**

The charges you pay are used to pay the costs of managing this investment, including the costs of marketing and distributing it. These charges reduce the potential growth of your investment.

The initial charge is the maximum that might be taken out of your money before it is invested.

For some investments, an exit charge (e.g. a market value deduction) may apply.

The annual management charge covers both the investment manager's costs (the management charge) and the cost of setting up your investment and the on-going administration (the product charge).

If you are receiving advice, you will need to agree with your advisor how to pay for their services before you invest. You may pay for these services via your investment (this is known as facilitated advisor charging) or you can pay a fee separately to your advisor.

One off charges taken before or after you invest	
Initial charges	0%
Exit charges	0%
Charges taken from the investment over the year	
Annual management charge	0.75%

The annual management charge is calculated as a percentage of the value of your investment. If your investment is worth £1,000, we would take £7.50 for the annual management charge.

**Past performance**

- This chart shows the performance of your investment over the past 5 years.
- Past performance is not a reliable indicator of future returns.
- The performance has been calculated in Sterling and is shown as the percentage change in the investment's value.
- Past performance does not take into account the effect of charges or inflation on the investment.

**Practical information**

- Contact information-** for more detailed information on this investment you can call us on 020 7123 4567 or email [help@abcinvestment.co.uk](mailto:help@abcinvestment.co.uk)
- Finding out more information-** to find out how your investment is doing, you can contact us at any time. We will also send you a statement on the value of your investment at least once a year.
- Tax-** this investment is subject to tax laws and regulations in the United Kingdom. You may be liable to pay tax if you withdraw money from your investment above certain limits, or you are a higher rate taxpayer.
- Complaints-** if you would like to make a complaint about any part of our service, please contact us. If we don't deal with your complaint to your satisfaction, you have the right to refer your complaint to the Financial Ombudsman Service. More information is available at [www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)
- Liability-** ABCInvestment may be held solely liable on the basis of any statement contained in this document that is misleading, inaccurate or inconsistent with other information on the investment.

Figure 41: Template Mixed Investment 40% Shares

#### Key Investor Information

This document provides you with key information about this investment. The information is required by law to help you understand the nature and risk of this investment. You are advised to read it so you can make an informed decision about whether to invest.

### Mixed Investment 80% Shares

**Objectives and investment policy**

The aim of this investment is to grow the money that you invest (your capital). There are various different ways we can invest your money, including buying shares in companies, bonds (investments which pay a set rate of interest) issued by companies and governments or investing in cash.

This investment is given a relatively high rating on the risk/reward scale (see below) because it typically holds about 80% in company shares. However, the investment manager may invest anywhere between 40% and 95% of the investment in shares. The rest of the investment is generally held in bonds and cash.

This investment is not suitable for people who may want to withdraw their money within 5 years. However, you can withdraw money if you wish.

The minimum you can invest at the start is £1,000. Any following investments must be a minimum of £100.

**Risk and reward profile**

Lower risk ← → Higher risk  
Lower reward (returns) Higher reward (returns)

1	2	3	4	5	6	7
---	---	---	---	---	---	---

The risk/reward category is calculated using historical performance data and may not be a reliable indicator of the investment's future risk/reward profile.

The investment is given a category 5 rating because it is largely invested in shares (which tend to be more volatile than other assets) and uses investment techniques which can vary suddenly and significantly, resulting in large losses or gains. Your capital (the money you invest) is not guaranteed.

The risk/reward category is not guaranteed and may change over time. The lowest category does not mean risk-free.

The indicator opposite does not take into account the following risks:

**Credit:** the company or government that issues the bond may not be able to pay the interest due (this is known as defaulting). The value of bonds may fall as default becomes more likely. High yield bonds generally offer higher returns because of their higher default risk and investment grade bonds generally offer lower returns because of their lower default risk.

**Liquidity:** the value of the investment may fall if some assets (for example shares in particular companies) become more difficult to sell because of poor stock market conditions or a lack of demand.

**ABCINVESTMENTS**

#### Key Investor Information

**Charges for this investment**

The charges you pay are used to pay the costs of managing this investment, including the costs of marketing and distributing it. These charges reduce the potential growth of your investment.

The initial charge is the maximum that might be taken out of your money before it is invested.

For some investments, an exit charge (e.g. a market value deduction) may apply.

The annual management charge covers both the investment manager's costs (the management charge) and the cost of setting up your investment and the on-going administration (the product charge).

If you are receiving advice, you will need to agree with your advisor how to pay for their services before you invest. You may pay for these services via your investment (this is known as facilitated advisor charging) or you can pay a fee separately to your advisor.

One off charges taken before or after you invest	
Initial charges	0%
Exit charges	0%
Charges taken from the investment over the year	
Annual management charge	0.75%

The annual management charge is calculated as a percentage of the value of your investment. If your investment is worth £1,000, we would take £7.50 for the annual management charge.

**Past performance**

- This chart shows the performance of your investment over the past 5 years.
- Past performance is not a reliable indicator of future returns.
- The performance has been calculated in Sterling and is shown as the percentage change in the investment's value.
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- Finding out more information-** to find out how your investment is doing, you can contact us at any time. We will also send you a statement on the value of your investment at least once a year.
- Tax-** this investment is subject to tax laws and regulations in the United Kingdom. You may be liable to pay tax if you withdraw money from your investment above certain limits, or you are a higher rate taxpayer.
- Complaints-** if you would like to make a complaint about any part of our service, please contact us. If we don't deal with your complaint to your satisfaction, you have the right to refer your complaint to the Financial Ombudsman Service. More information is available at [www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)
- Liability-** ABCInvestment may be held solely liable on the basis of any statement contained in this document that is misleading, inaccurate or inconsistent with other information on the investment.

Figure 42: Template Mixed Investment 80% Shares

## 5.2.2 Deterministic (page 3)

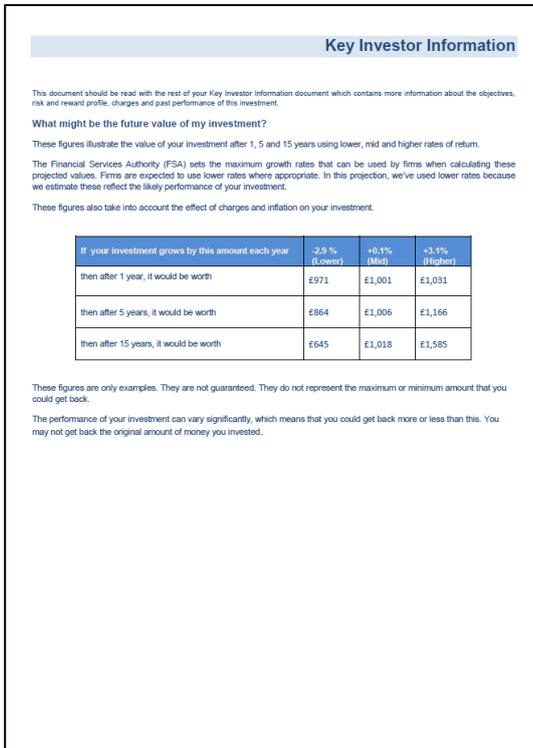


Figure 43: Deterministic Mixed Investment 40% Shares projection page 3

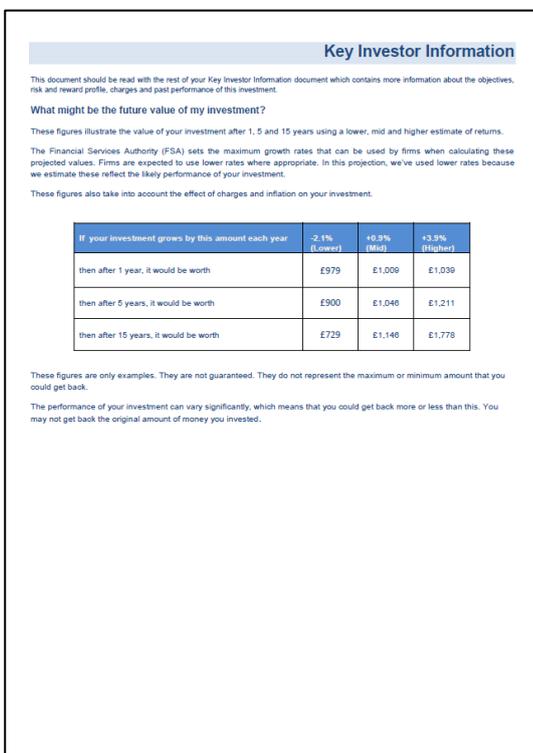


Figure 44: Deterministic Mixed Investment 80% Shares projection page 3

## 5.2.3 Deterministic Plus

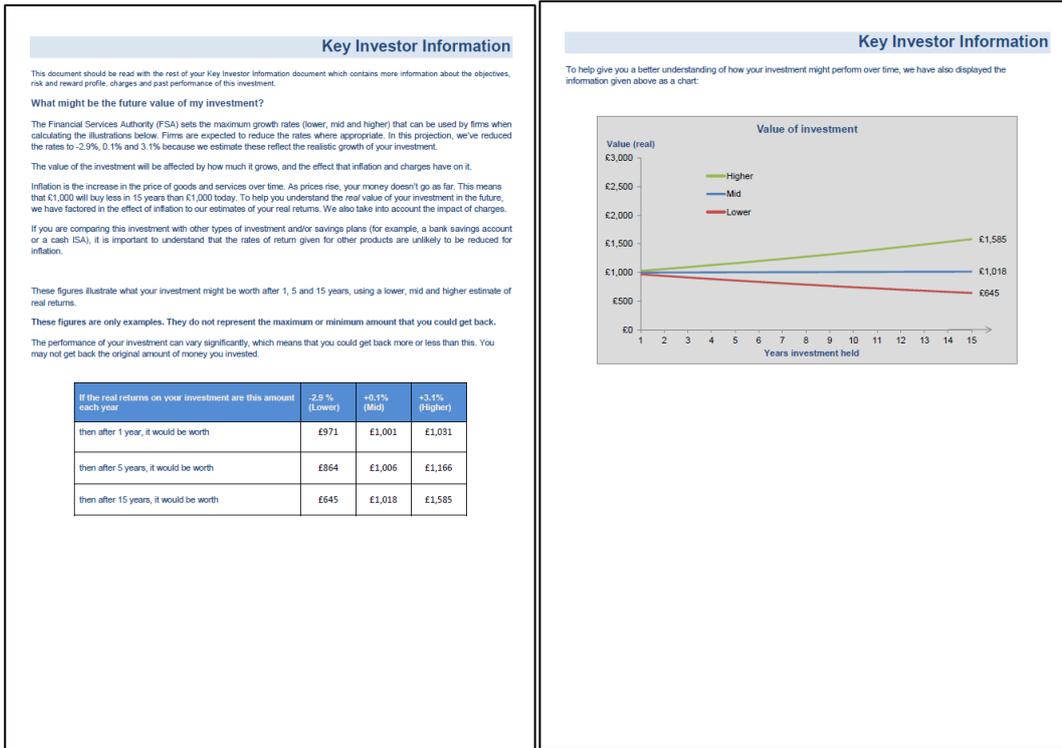


Figure 45: Deterministic Plus Mixed Investment 40% Shares projection pages 3 and 4

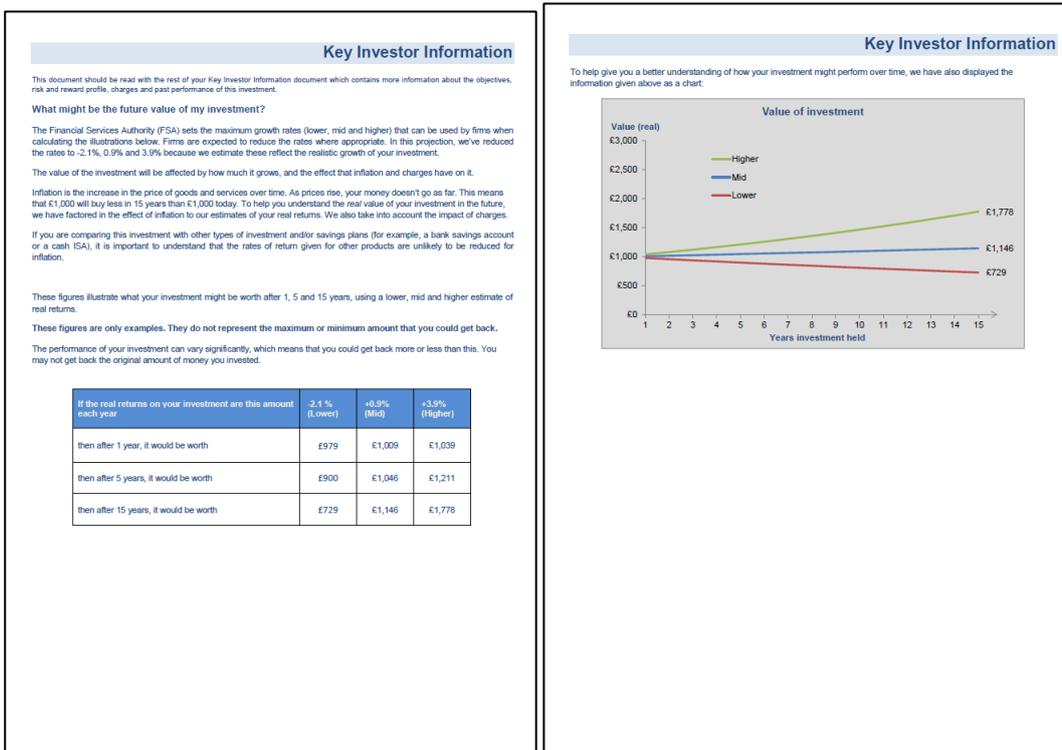


Figure 46: Deterministic Plus Mixed Investment 80% Shares projection pages 3 and 4

## 5.2.4 Stochastic

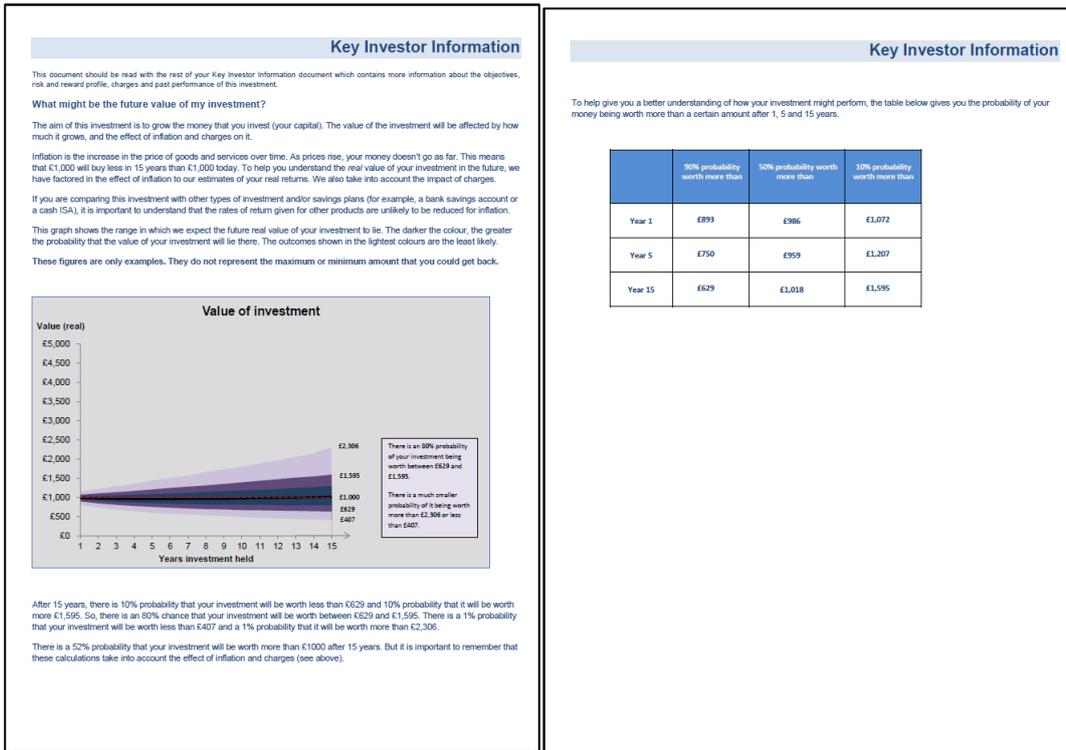


Figure 47: Stochastic Mixed Investment 40% Shares projection pages 3 and 4

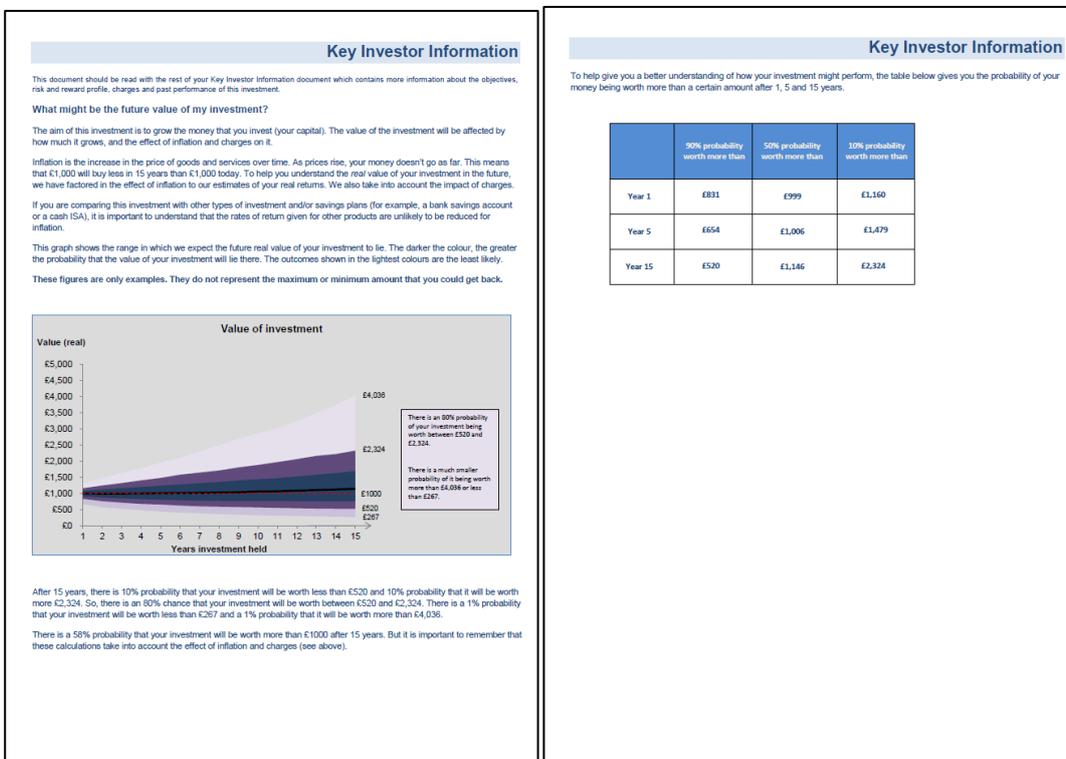


Figure 48: Stochastic Mixed Investment 80% Shares projection pages 3 and 4

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