Investing for a brighter future

Stocks and Shares ISAs explained

BNY MELLON

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Everyone has goals for the future they look forward to

Achieving these goals often requires some long-term planning. A stocks and shares ISA could be the solution, offering tax-efficiency and flexibility.

This guide will help you understand more about stocks and shares ISAs, what they can offer and what sorts of investments can be included.

Please remember: Tax treatment will depend on individual circumstances and may change in the future. The value of investments can fall. Investors may not get back the amount invested. Income from investments may vary and is not guaranteed.

What is a stocks and shares ISA?

An ISA, or individual savings account, is not an investment in itself but a tax wrapper, which means your savings or investments will not be liable for income or capital gains tax.

– A cash ISA is much the same as a regular savings account.

– A stocks and shares ISA is a wrapper for a wide range of investment types, from individual stocks and shares to corporate bonds and collective investment schemes.

– As such, ISAs are only as good as the investments they contain. This guide gives you the facts about stocks and shares ISAs and introduces BNY Mellon's multi-boutique approach to investment management.

DIVIDEND DEFINED: A proportion of a company's profits paid out to shareholders.

1 https://www.gov.uk/tax-on-dividends/how-dividends-are-taxed.

Stocks and Shares ISAs THE FACTS

Any UK resident aged **18 or over** can invest **£20,000** in a Stocks and Shares ISA in the 2017/2018 tax year

If you are a UK resident aged 16 or over you can open a Cash ISA

You can only open one stocks and shares ISA in any one tax year

Any allowance that you do not use in one tax year cannot be carried over to the next

You can transfer money saved in a cash ISA in the current tax year into a stocks and shares ISA, as long as you transfer the full amount

You do not need to declare ISA investments on your tax return

A basic rate tax payer will be saving 20% income tax on any savings income that arises within the ISA wrapper and any gains will be free of capital gains tax. Since April 2016, the dividend tax arrangements have changed.

The government has introduced a tax allowance of £5,000 which means you will be able to receive up to £5,000 of dividends without any tax liability. This will change to £2,000 a year from April 2018. After this sum, dividends will be taxed at 7.5%, 32.5% and 38.1% depending on whether you are a basic, higher or additional rate tax payer.[1]

How much can I invest?

Under current government rules, the ISA allowance increases every tax year in line with inflation, but these rules could change in the future. The most you can invest in a stocks and shares ISA in 2017/2018 is £20,000.

Remember, you will be eligible for one stocks and shares ISA per person, per year.

If you use up your allowance and then withdraw it, you cannot re-invest it in another ISA until the next tax year. You can however transfer your investments between ISA providers by completing the relevant forms for investments made in previous tax years, without affecting the current year's allowance.

What makes the ISA allowance so special?

An ISA is typically a primary consideration for any investor as it is the most income tax efficient means available due to the capital gains tax exemptions and reduced income tax liability for higher rate tax payers.

With the annual pensions tax relief allowance having been reduced to £40,000, high earning individuals are now restricted on how much they can contribute to a pension and not suffer a tax charge. For such individuals, building up tax-efficient wealth outside of their pension will become more important than ever to them.

Whatever their specific investment objectives, many investors in company shares recognise the potential power of so-called 'compounding' of earnings over the long-term. 'Compounding' is a technical term used to describe how earnings (for example a company's profits) can be re-invested, and how these re-invested earnings in turn have the potential to generate further earnings in the future.

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Why invest in a stocks and shares ISA?

Current low interest rates mean that money sitting in a deposit account today is unlikely to be growing very quickly. In fact, the purchasing power of your money could be falling. History shows that over the long term, investments in stocks and shares can beat the corrosive effect of inflation – although this is not guaranteed.

Designed for medium to long-term financial goals, stocks and shares ISAs can be an effective means of long-term savings and other investment goals – whichever life stage you find yourself at.

If you are just beginning your working life, or starting a family, then the cost of investing every month is achievable as most ISA providers allow you to save from as little as £50 a month. By saving regularly, you benefit from the effect of 'pound-cost averaging', whereby a specific amount of money will buy more shares when their price is low (and therefore more likely to rise), and fewer shares when their price is high (and therefore more likely to fall). Combine this with compounding tax-free interest and it is clear to see how regular investing can be an option for growing a longer-term savings pot.

If you have a lump sum to invest and are looking for an income, then a stocks and shares ISA can help.

What can be held in a stocks and shares ISA?

There are a variety of investment products you can hold in your ISA.

These include:

- **Individual stocks and shares**
- **Unit trusts –** A way of pooling your money together with other investors to buy a wider range of investments than you would be able to achieve on your own.
- **OEICs (Open ended investment companies) –** They are similar to unit trusts, but are established as companies that issue shares to investors.
- **ICVCs (Investment companies with variable capital) –** An investment company in which you can buy shares. The ICVC then invests the money from those shares in other companies.
- **Investment trusts –** Similar to unit trusts, investment trusts are set up as companies and traded on the London Stock Exchange.
- **Exchange traded funds –** They aim to mimic the performance of a particular market or index. Their value is determined by whether or not the index rises or falls and they are traded like individual stocks.
- **Corporate and government bonds –** When an investor lends money to a company or government for a stated period of time at a fixed interest rate.

BNY Mellon only offers ICVCs, which are a form of collective investment scheme.

What are your investment options?

There is a potentially bewildering choice of investment options today, from funds investing in company shares (equities) in specific regions of the world, to those that focus mainly on generating an income for the investor by identifying companies that pay high dividends. To help you better understand the typical characteristics of some of the most common asset classes, we have provided the following short guide.

Company shares

Ownership of companies is usually divided into shares. The more shares an investor has the higher the proportion of the company that investor owns. When companies make a profit, they give some back to shareholders as dividends. Shares are typically bought and sold on a stock market; share prices will usually go up and down depending on a wide range of factors that affect the desirability of owning shares in a particular company – such as how much profit the company is making. Many investors believe that investments in company shares offer good potential to grow in value over the long term. Rather than buying individual shares, many investors choose to invest in a fund that itself invests in a number of shares, and is managed by a professional fund manager who has experience and expertise in selecting investments. However, it is extremely important to remember that share prices can and do fall as well as rise, meaning that investors can sometimes get back less than they invested originally when they sell their investment. Significant movements in share prices often occur without warning.

Emerging market company shares

Many experts believe that the long-term prospects for emerging markets and their stock markets are more attractive than those for developed nations and markets. With younger populations giving them large workforces they are able to operate very competitively in the global marketplace. Many are also rich in natural resources.

A downside to this is that emerging stock markets have often fallen very quickly if, for example, economic figures are not so good, or social or political problems occur. For these reasons, those considering a fund that invests in emerging markets will need to remember that the value of their investment can go up and down sharply. It is also important to note that emerging markets have additional risks owing to their less developed market practices.

Government bonds

Almost all governments need to borrow money; and one of the ways they do this is by issuing bonds. By purchasing government bonds, an investor is effectively lending money to a government, which agrees to repay the full amount lent back to the investor on a specific date in the future, and to make regular interest payments at predetermined intervals. While government bond prices tend to fluctuate less than some other types of investment, they are not immune from the impact of economic influences. There are various types of bonds, such as inflation-linked bonds, which have different characteristics and will respond in different ways to specific economic influences. It is also important to remember that investments in bonds issued in foreign currencies carry additional risks; changing foreign exchange rates can have a material effect on the value of investments.

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Corporate bonds

Corporate bonds work in a similar way as government bonds, but lend money to a company. They carry additional risks – the main one being that companies are often considered more likely than governments to 'go bust' and be unable to repay their debts. To compensate for the increased risks, companies usually pay investors a higher rate of interest than governments. Funds specialising in investing in corporate bonds may therefore offer the potential to generate higher returns, but with a potentially greater risk that the investment may fall in value.

Commercial property

Commercial property includes a wide range of buildings such as shopping centres or office blocks. Commercial property funds can be a useful source of returns, offering both income (through the rents) and capital growth potential (if the value of buildings or land rises). The risk of such investments is that buildings may remain vacant – meaning that no rent is received – and land values can decline as well as rise. In addition, it can be difficult to sell buildings in a rush, which can sometimes be necessary if the owners of the building need to gain access to money at short notice. One alternative is to invest in a property securities fund. These funds invest in the shares of property companies that are traded on the stock market. Naturally, these investments are subject to the same risks as any investment in company shares.

Commodities

Commodities are usually divided into 'hard' and 'soft' commodities. Hard commodities include metals such as gold or steel and energy sources like oil and coal. Soft commodities include crops such as coffee and cocoa or produce such as meat. Private investors generally gain access to commodities markets by investing in funds managed by professionals. Because they can perform in a contrasting way to other investments such as government bonds, commodities are a useful way to diversify. However, commodities remain one of the more risky types of investment precisely because they are traded on markets, and therefore prices can fluctuate. Whilst funds cannot invest directly in commodities, they can invest in stocks of companies involved in commodity-related industries, such as energy, agriculture or mining.

Equity income funds

These funds focus on buying the shares of companies that pay attractive dividends – a share of the profits made by the company and paid out to shareholders, usually at regular intervals. It is important to remember that the value of an investment in an equity income fund will typically go up and down over time, and any income from your investment is not guaranteed.

Multi-asset funds

An alternative to funds that invest in a single asset class. Some investors are avoiding funds that invest in only one asset class (such as company shares or government bonds), instead choosing funds that can move money between different asset types in response to market conditions. These funds seek to generate steady returns (from long-term capital growth and income) with fewer fluctuations than those funds that only invest in one asset type, the theory being that if prices of one type of asset fall, the prices of a different type may rise, although this is never guaranteed. It is also important to remember that multi-asset funds may not offer quite the same potential for growth as funds that invest in a single asset class.

What are you looking forward to? Understanding your reasons for investing

By understanding why you are saving, it can help you figure out what you want your investment to provide you with. These are just a few reasons you may have for wanting to take advantage of the investment opportunities and tax-efficient nature of a stocks and shares ISA.

- To help save towards retirement
- To begin saving towards the cost of university fees for your children
- To set money aside for a rainy day

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What do you want your investment to provide you with? Growth, a regular income, or a combination of both?

What do you want your ISA investment to deliver?

A combination of both income and growth?

You may want a balance between capital growth and income. If you don't want an income from your investments you can re-invest any income you might receive. And when you do want to take an income, you can have any payments made directly into your account.

Generate future income?

Do you want your investment to provide regular payments to help boost your income? You may be retired or approaching retirement, and want to supplement your existing pension provision at that time. Consider how much income you'll need and when you'll need it.

Build capital?

You want to build a lump sum for something specific, like paying off your mortgage early, helping your family with a deposit to buy a home or to pay university fees.

Whatever the need, think about the total you'll need and when you'll need it.

BNY Mellon offers a number of funds designed to provide income, growth or a bit of both.

Whatever choice you make, we have a large selection of funds for you to consider.

A world of investment opportunity

Regular investors with BNY Mellon will know that we are one of the largest investment companies in the world. We currently invest and manage more than £1.3trn (as at 31 December 2016) on behalf of individuals, pension funds, charities and other institutions. We offer a wide range of funds suitable for stocks and shares ISAs, including those with the potential to generate capital growth and which could provide you with an income as well.

Our multi-boutique investment management approach encompasses the skills of a number of world-class specialist investment firms. Each has its own investment philosophy and process, and each is a leader in its field.

Newton Investment Management, based in London, is well known for its distinctive approach, known as 'global thematic' investing, it is rooted in the belief that no company, market or economy can be considered in isolation; each must be understood within a global context.

Walter Scott, based in Edinburgh, is dedicated to managing investments in global company shares. The firm aims to identify shares in companies from anywhere in the world with the greatest ability to create returns for shareholders over the longer term.

The Boston Company Asset Management focuses on managing portfolios of shares in US and international companies. The firm, which has a history stretching back over 30 years, uses a team-based approach to analysing company shares, with individual team members having particular knowledge of and expertise in specific industrial sectors, such as pharmaceutical companies, financial services companies or oil and gas companies.

Insight Investment, based in London, was founded in 2002. The firm's range of funds covers fixed income, multi-asset funds, specialist equities and absolute return-style funds (which typically seek to make a return in all market conditions, although this is never guaranteed).

How to invest in a stocks and shares ISA with BNY Mellon

Once you have decided which fund or funds will meet your needs, please read the key investor information documents (KIID) for the fund you choose, which will help you to make an informed investment decision. We are required by law to ask you to declare that you have received, read and understood a relevant KIID linked to your fund choice before making your investment.

If you have any questions about the tax treatment of investments held in an ISA, please contact an independent financial adviser.

Please visit our website www.bnymellonim.co.uk to learn more about the investment opportunities available to you.

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To learn more about our funds, please contact us directly.

If you are unsure which type of investment is right for you, please contact a financial adviser.

www.bnymellonim.co.uk

0800 614 330
Call us if you have any questions about our ISA service: weekdays, 8:30am-5:30pm
Calls to Freephone numbers from UK landlines are free whilst calls to Freephone numbers may incur charges. To help continually improve our service and in the interest of security, we may monitor and/or record your telephone calls with us

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