

# **HBOS GROUP MONEY PURCHASE SCHEME**

## **STATEMENT OF INVESTMENT PRINCIPLES**

(Revised/Reviewed: March 2010)

# **HBOS GROUP MONEY PURCHASE SCHEME**

## **STATEMENT OF INVESTMENT PRINCIPLES**

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## **1. INTRODUCTION**

In this document, the HBOS Group Money Purchase Scheme is referred to as “the Scheme”.

### **1.1 THE PURPOSE OF THIS STATEMENT**

Section 35 of the Pensions Act 1995 requires the Trustees of all self administered occupational trust schemes to prepare and maintain a written statement of the principles governing decisions about investments within the scheme. The Occupational Pension Schemes (Investment) Regulations 2005 extend this requirement to trustees of wholly-insured schemes.

In preparing this statement, the Trustees have considered the requirements of the Pensions Act 1995, as amended, the Occupational Pension Scheme (Investment) Regulations 1996, as amended, and the Codes of Best Practice recommended by Paul Myners in his report 'Institutional Investment in the UK: A Review', undertaken in 2000 and subsequent Government responses. The Trustees have sought written professional advice from their appointed advisers and have consulted with the sponsoring and participating employers of the Scheme.

The Trustees will refer to this statement when exercising their investment powers in order to ensure that all decisions are made in accordance with the principles contained herein.

### **1.2 REVIEW**

The Trustees will review this statement, in consultation with the Scheme's professional advisers, annually, or where the Trustees consider a review is required for other reasons.

### **1.3 THE SCHEME**

The Scheme is a defined contribution (money purchase) occupational trust pension scheme.

The Scheme is not contracted out of the State Second Pension (S2P). The Scheme is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004.

The Scheme is a “wholly-insured scheme” as defined in Regulation 8 of the Occupational Pension Schemes (Investments) Regulations 2005. The Scheme is structured in this way to take advantage of the administration service provided by Clerical Medical (a Lloyds Banking Group company) for employer sponsored schemes.

## **2. SCHEME GOVERNANCE**

The Scheme's definitive Trust Deed dated 5 April 2006 and subsequent amendments define the extent of the Trustees' investment powers.

The Trustees are responsible for making all decisions concerning the Scheme's investment matters. They must have regard to the need for diversification of investments and to the suitability to the Scheme of the underlying investments.

In order to make best use of the expertise available and achieve the most appropriate outcome for the Scheme and its members, the Trustees have delegated responsibilities to two sub-committees, the HBOS Group Money Purchase Scheme Investment Committee, and the HBOS Group Money Purchase Scheme Communication and Administration Committee.

Both Committees act only as recommending bodies and the final decision making powers remain with the Trustees.

The responsibilities of these committees and of the other parties involved in advising the Trustees and managing the Scheme are set out in Appendix 1.

The Trustees also take advice from their appointed professional investment advisers who assist the Trustees with making and implementing investment decisions through the provision of expert advice.

## **3. SCHEME OBJECTIVES**

The Trustees recognise that members have differing attitudes towards investment risk and that these attitudes can change during the course of members' working lives. The Trustees believe that members should be able to make their own investment decisions based on their own individual circumstances.

The Trustees' primary objectives are therefore:

- To offer a range of investment options with varying risk characteristics that is sufficient to satisfy the requirements of as many members as possible, whilst trying to avoid over-complexity of investment choice in order to minimise administration costs and aid member understanding.
- To comply with all relevant legislation and to operate in accordance with recognised codes of best practice.

## 4. ASSET ALLOCATION

As the Scheme is wholly-insured, all the investment options available within the Scheme are pooled investment vehicles. This type of investment has the following characteristics:

- Simplification of administration.
- Transparency to members of the value of their investments.
- Provision of greater diversification and choice which would not otherwise be available within the minimum size constraints of segregated funds.

The pooled funds, and their underlying asset classes, into which the Scheme currently invests are outlined in Appendix 2. The Trustees believe that the range of asset classes available to members is appropriate to the current circumstances of the Scheme.

The Trustees undertake to carry out, in conjunction with their professional advisers, a formal review of the investment options available within the Scheme at least every three years. However, should the Trustees and their advisers feel that circumstances warrant it, a review may be carried out sooner.

All Scheme members can choose which of the available funds within the Scheme to invest in. Until a choice is made and received by the Scheme's administrators, contributions for new members will be invested in the Scheme's Lifestyle Option 1, details of which are set out in Appendix 2. Lifestyle Option 1 has been chosen by the Trustees, in conjunction with their advisers, as it is felt that this provides a balance of investment risk and return that is appropriate for *most* members over the *longer* term. **This does not imply investment advice and the Trustees recognise that Lifestyle Option 1 might not be the most appropriate investment choice for all members.**

The Trustees strongly believe that all members should take an active part in making their own investment decisions, therefore, if members do not feel that Lifestyle Option 1 is appropriate for their own individual circumstances, they can choose to move their investments to any of the other funds that are available within the Scheme at any time.

## **5. SOCIALLY RESPONSIBLE INVESTMENT**

As the Scheme invests entirely in pooled investment vehicles through insurance policies, the Trustees accept that they themselves can not directly influence the social, environmental and ethical policies or practices of the companies in which the pooled funds invest.

However, the investment managers who have been appointed by the fund providers selected by the Trustees do have publicly available statements regarding socially responsible investment and the Trustees have reviewed these statements and consider them to be appropriate.

The Trustees will monitor these policies for any changes on an annual basis and should any concerns arise, then these would be raised with the fund providers in the first instance. Should Trustees' concerns not be satisfactorily addressed, then ultimately Trustees have the power to move the Scheme's investments to a fund provider whose policies Trustees do consider appropriate, notwithstanding administration issues that would need to be considered in the event of such a transfer.

## **6. ACTIVISM AND CORPORATE GOVERNANCE**

As the Scheme invests only in pooled investment funds, the voting rights associated with the underlying assets within the funds are held by the investment managers or fund providers and not the Scheme's Trustees. The Trustees expect the investment managers and fund providers to exercise voting rights in accordance with their respective published statements on socially responsible investment and corporate governance, which Trustees have reviewed and which Trustees consider to be appropriate.

The Trustees also expect the investment managers and fund providers to adopt best practice in relation to shareholder activism as set out in the Institutional Shareholders Committee Code.

Where the Trustees are specifically invited to vote on a matter relating to a policy or contract held with any of the Scheme's investment managers or fund providers, the Trustees will exercise their right in accordance with what they believe to be the best interests of the majority of the Scheme's membership.

## **7. FEES**

The Trustee body is composed of Management Trustees and Member Trustees who are all employed by the Scheme's participating employers and an Independent Trustee who is neither employed by the Scheme's participating employers nor a member of the Scheme.

The Management and Member Trustees are remunerated for their employment duties only by their employer, but the business areas in which they are based receive a fee from the Scheme to compensate for the time spent by Trustees away from their day to day business duties. The Independent Trustee receives a fee from the Scheme as remuneration for his/her services.

Fees in respect of all Trustees were set by the Remuneration Committee of HBOS plc in consultation with external independent advisers and were agreed with the Trustees of the Scheme before coming into effect. A process for reviewing fees is currently being considered by Lloyds Banking Group.

The Scheme's investment adviser, legal adviser and auditor are remunerated on a fee basis, with fees being agreed for specific pieces of work undertaken.

The investment managers are remunerated by way of an annual management charge. The charge is calculated as a percentage of the total value of assets under management and the charge is incorporated within the unit price for each pooled investment fund.

The fund provider's fees for administration services are based on an amount per member per year. The fees are paid from contributions paid into the Scheme by the employer.

Neither the Scheme nor its advisers receive any commission for the recommendations or advice given to the Trustees. It is believed that this is the most appropriate method to maintain objective and independent advice.

All of the costs incurred in administering the Scheme are met from the Scheme.

## **8. IMPLEMENTATION AND MONITORING OF INVESTMENT POLICY**

The Scheme's investment policy is implemented and monitored by the Investment Committee.

The responsibilities of the Investment Committee are set out in Appendix 1 to this Statement.

The Investment Committee meets on a quarterly basis and reports to the Trustees of the Scheme.

## **9. RISKS**

As the Scheme is a defined contribution scheme, the risk of investment underperformance lies with the individual members of the Scheme.

The Trustees have put in place measures to minimise, as far as possible, the risks associated with operating an occupational defined contribution pension scheme.

The risks and counter measures employed are outlined in the following table:

<b>Risk</b>	<b>Counter measure</b>
<p><b>Conversion risk</b>  <i>(The value of members' investments on retirement is not sufficient to purchase adequate pension provision)</i></p>	<p>Lifestyle Options are available which aim to mitigate conversion risk. During the early years of their working life, members can afford to take greater risk in return for seeking higher returns, by investing in equity type assets. However, as members approach retirement, their investments are switched in a pre-determined manner to assets (e.g.; bonds and cash) whose characteristics are more consistent with the eventual retirement benefits. On retirement, the value of their investments is realised and members can take some as cash and use the balance to purchase an annuity with an insurance company that undertakes to pay the pension.</p>
<p><b>Investment risk</b>  <i>(Market exposure is concentrated in one particular sector or geographical area)</i></p>	<p>A number of funds are available which offer diversification of investments across business sectors and geographical markets.*</p>
<p><b>Investment Manager risk</b>  <i>(The Manager's investment performance is poor)</i></p>	<p>Investment performance is monitored regularly, as outlined in the Investment Committee's responsibilities in Appendix 1 to this Statement. In addition, a number of the funds within the Scheme are passively managed (or index-tracking) funds, which aim to minimise the risk of investment manager performance producing returns that differ significantly from the benchmarks against which the funds are measured.</p>
<p><b>Administration risk</b>  <i>(Administration of contributions and benefits is ineffective)</i></p>	<p>A Risk and Control Framework is in place which outlines all risks associated with the administration of the Scheme and the controls which are in place to mitigate these risks. The Framework has been reviewed by Group Risk.</p>

\* Details of all the investment funds and options available to members within the Scheme are given in Appendix 2.

## Appendix 1

# HBOS GROUP MONEY PURCHASE SCHEME

## RESPONSIBILITIES

The Trustees must have the necessary skills, information and resources to enable them to make effective investment decisions. The responsibilities for the different parties who play a role in this are set out below:

### TRUSTEES

The Trustees responsibilities include:

- Maintaining this Statement of Investment Principles in accordance with all relevant legislation and the recommendations of the Myners Review.
- Reviewing and approving the Scheme's Business Plan.
- Agreeing the terms of reference for both the Investment Committee and the Communication and Administration Committee and ensuring that both Committees carry out their responsibilities.
- Deciding the Scheme's investment strategy in consultation with the Investment Committee and their advisers.
- Appointing and dismissing the professional advisers.
- Selecting and, where appropriate, replacing the investment funds that are available to members of the Scheme, based on recommendations by the Investment Committee.
- Reporting to Scheme members as appropriate.
- Assessing their own performance and that of the two sub-committees.
- Ensuring adequate skills and training are available to enable their functions to be carried out.

## **INVESTMENT COMMITTEE**

The Investment Committee's members are Trustees.

The Investment Committee has the delegated responsibilities for:

- Developing and recommending an appropriate investment strategy to the Scheme's Trustees.
- Undertaking reviews of the Scheme's investment strategy and investment policies annually, or at any other time as is deemed necessary or appropriate.
- Recommending to Trustees the selection and, where appropriate, the replacement of the investment funds that are available to members of the Scheme and agreeing the charging structure with the fund providers.
- Appointing an independent professional investment adviser.
- Reviewing and understanding the investment needs of the Scheme's members and potential members.
- Reviewing this Statement of Investment Principles at least annually, and modifying it, if deemed appropriate, in conjunction with the Scheme's professional advisers.
- Monitoring investment performance against appropriate benchmarks.
- Assessing the suitability of the Scheme's 'core' investment option.
- Assessing the appropriateness of 'lifestyling' options.
- Investigating the suitability of new and different classes of investments.
- Agreeing the investment content of communications to members.
- Monitoring the expenses incurred in running the Scheme.

The Investment Committee reports to the Trustees, who retain the final decision making powers.

## **COMMUNICATION AND ADMINISTRATION COMMITTEE**

The Communication and Administration Committee consists of some Trustee members, and some non-Trustee members who bring with them a broad and varied range of experience.

The Communication and Administration Committee has the delegated responsibilities for:

- Developing and delivering an appropriate communication strategy to the Scheme's Trustees.
- Reviewing existing Scheme communications.
- Agreeing the most appropriate media for delivering future communications to members and potential members.
- Assessing the effectiveness of communication to members and potential members.
- Applying developments in pensions law and regulations in respect of any communication and administration related issues.
- Monitoring the administration of the Scheme against the Record of Arrangement.

The Communication and Administration Committee reports to the Trustees, who retain the final decision making powers.

## **INVESTMENT MANAGERS**

In accordance with the Financial Services & Markets Act 2000, the Trustees will define the Scheme's general investment policy, but the responsibility for selection of specific investments within the market is delegated to the investment managers. As the Scheme is wholly-insured, the investment managers are not directly appointed by the Trustees, but are appointed by the insurance companies (the fund providers) whose products and funds have been selected by the Trustees.

The Investment Managers are expected to:

- Manage the investments within the pooled funds in a risk controlled environment.
- Act in a way which is acceptable to the Trustees' principles on corporate governance, social responsibility and shareholder activism.
- Report investment performance to the Investment Committee (directly or via the fund providers) on a quarterly basis.

Investment performance statistics for unit linked funds are expected to include the actual rate of return for each fund and its chosen benchmark over rolling periods of 3 months, 1 year, 3 years and 5 years, (with annualised rates over the periods greater than 1 year). Statistics for with profits funds are expected to reflect the increase in value due to the bonus declared in each year.

## **INVESTMENT ADVISER**

A professional investment adviser, authorised under the Financial Services and Markets Act 2000, has been appointed to assist the Investment Committee in fulfilling its responsibilities to the Scheme's Trustees.

The appointed Investment Adviser is expected to:

- Offer independent and industry wide views on investment related issues.
- Advise the Investment Committee of any investment manager organisational changes and of changes in the investment environment which may be of relevance to the Scheme.
- Provide advice and recommendations to the Investment Committee on matters with which the Committee and Trustees are unfamiliar.

## **ADMINISTRATORS**

The Scheme's administrators are responsible for ensuring that:

- Contributions from employees and participating employers are paid into the Scheme in accordance with the Contributions Schedule in force at the time.
- Contribution monies are transferred to the Investment Managers and are invested correctly and in a timely manner.
- Benefits and transfers out are paid when due.
- Individual member records are updated in a timely manner and are accurately maintained.
- The Scheme's tax liabilities are settled with HM Revenue and Customs on behalf of the Scheme's Trustees within the statutory timescales.
- The Scheme complies with all relevant legislation.
- The Scheme is administered in a cost effective manner.

## HBOS GROUP MONEY PURCHASE SCHEME

### INVESTMENT OPTIONS

All of the funds in which the Scheme holds investments are listed in this appendix.

#### 1. FUNDS AVAILABLE TO ALL MEMBERS

##### 1.1 ACTIVELY MANAGED FUNDS

The following funds are available to all existing members and to new members:

<b>Actively Managed Funds</b>		
	<b>Fund</b>	<b>Invests primarily in</b>
<b>13</b>	Property Fund	Commercial property

##### 1.2 PASSIVELY MANAGED FUNDS

The following funds are available to all existing members and to new members:

<b>Passively Managed Funds</b>		
	<b>Fund</b>	<b>Invests primarily in</b>
<b>12</b>	UK Equity Tracker Fund	UK equities
<b>11</b>	Global Equity Tracker Fund	Overseas equities (weighted by market capitalisation)
<b>10</b>	UK Index-Linked Gilt Tracker Fund	UK index-linked Government bonds
<b>9</b>	UK Fixed Interest Gilt Tracker Fund	UK fixed interest Government bonds
<b>8</b>	Corporate Bond Tracker Fund	Investment grade corporate bonds denominated in sterling
<b>7</b>	Money Market Fund	Cash deposits and other short term money market instruments

All of these funds also form part of the Scheme's three Lifestyle Options which are now explained in more detail:

### 1.3 LIFESTYLE OPTION 1

Lifestyle Option 1 aims to offer members investment returns that exceed inflation over the longer term by investing entirely in equities when a member is more than ten years from retirement. This is followed by an automatic and pre-determined switch out of equities and into bonds and cash as the member approaches retirement with the aim of locking in the returns and providing some stability of returns and capital value prior to retirement.

New contributions in Lifestyle Option 1 are invested as follows:

Fund		Percentage of new contributions invested in each fund		
		More than 10 years from retirement	Between 5 and 10 years from retirement	Less than 5 years from retirement
12	UK Equity Tracker Fund	50%	0%	0%
11	Global Equity Tracker Fund	50%	0%	0%
10	UK Index-Linked Gilt Tracker Fund	0%	0%	0%
9	UK Fixed Interest Gilt Tracker Fund	0%	50%	37.5%
8	Corporate Bond Tracker Fund	0%	50%	37.5%
7	Money Market Fund	0%	0%	25%

More than ten years from retirement, the value of each member's Individual Account is rebalanced annually so that the relative exposure to each fund is kept in line with the asset allocation shown in the table above. This rebalancing involves selling units in one fund to buy units in another. This does not affect the total value of the member's Individual Account but only the proportion that is invested in each fund.

When the member reaches ten years from retirement, all existing investments are switched on a monthly basis out of funds 11 and 12 so that by the time the member is five years from retirement their Individual Account is invested 50% in fund 8 and 50% in fund 9. Switching continues in the final 5 years so that upon retirement the member's Individual Account is invested 37.5% in fund 8, 37.5% in fund 9 and 25% in fund 7.

## 1.4 LIFESTYLE OPTION 2

Lifestyle Option 2 aims to offer members investment returns that exceed inflation over the longer term by investing predominantly in equities when a member is more than ten years from retirement. This is followed by an automatic and pre-determined switch out of equities and into bonds and cash as the member approaches retirement with the aim of locking in the returns and providing some stability of returns and capital value prior to retirement.

New contributions in Lifestyle Option 2 are invested as follows:

Fund		Percentage of new contributions invested in each fund		
		More than 10 years from retirement	Between 5 and 10 years from retirement	Less than 5 years from retirement
12	UK Equity Tracker Fund	37.5%	0%	0%
11	Global Equity Tracker Fund	37.5%	0%	0%
10	UK Index-Linked Gilt Tracker Fund	12.5%	0%	0%
9	UK Fixed Interest Gilt Tracker Fund	0%	50%	37.5%
8	Corporate Bond Tracker Fund	12.5%	50%	37.5%
7	Money Market Fund	0%	0%	25%

More than ten years from retirement, the value of each member's Individual Account is rebalanced annually so that the relative exposure to each fund is kept in line with the asset allocation shown in the table above. This rebalancing involves selling units in one fund to buy units in another. This does not affect the total value of the member's Individual Account but only the proportion that is invested in each fund.

When the member reaches ten years from retirement, all existing investments are switched on a monthly basis out of funds 10, 11 and 12 so that by the time the member is five years from retirement their Individual Account is invested 50% in fund 8 and 50% in fund 9. Switching continues in the final 5 years so that upon retirement the member's Individual Account is invested 37.5% in fund 8, 37.5% in fund 9 and 25% in fund 7.

### 1.5 LIFESTYLE OPTION 3

Lifestyle Option 3 aims to offer members a conservative mix of investment returns that are relatively stable but with some potential to exceed inflation by investing half in equities and half in bonds when a member is more than ten years from retirement. This is followed by an automatic and pre-determined switch out of equities and into bonds and cash as the member approaches retirement with the aim of locking in the returns and providing some stability of returns and capital value prior to retirement.

New contributions in Lifestyle Option 3 are invested as follows:

Fund		Percentage of new contributions invested in each fund		
		More than 10 years from retirement	Between 5 and 10 years from retirement	Less than 5 years from retirement
<b>12</b>	UK Equity Tracker Fund	25%	0%	0%
<b>11</b>	Global Equity Tracker Fund	25%	0%	0%
<b>10</b>	UK Index-Linked Gilt Tracker Fund	25%	0%	0%
<b>9</b>	UK Fixed Interest Gilt Tracker Fund	0%	50%	37.5%
<b>8</b>	Corporate Bond Tracker Fund	25%	50%	37.5%
<b>7</b>	Money Market Fund	0%	0%	25%

More than ten years from retirement, the value of each member's Individual Account is rebalanced annually so that the relative exposure to each fund is kept in line with the asset allocation shown in the table above. This rebalancing involves selling units in one fund to buy units in another. This does not affect the total value of the member's Individual Account but only the proportion that is invested in each fund.

When the member reaches ten years from retirement, all existing investments are switched on a monthly basis out of funds 10, 11 and 12 so that by the time the member is five years from retirement their Individual Account is invested 50% in fund 8 and 50% in fund 9. Switching continues in the final 5 years so that upon retirement the member's Individual Account is invested 37.5% in fund 8, 37.5% in fund 9 and 25% in fund 7.

## 2. FUNDS NOT AVAILABLE TO NEW MEMBERS

The following funds are no longer available in the Scheme. However, some existing members who chose to invest in the funds in the past do continue to invest in the funds.

### 2.1 ACTIVELY MANAGED FUNDS

<b>Actively Managed Funds</b>		
	<b>Fund</b>	<b>Invests primarily in</b>
<b>6</b>	UK Equity Fund	UK equities
<b>5</b>	International Fund	UK and overseas equities (weighted by market capitalisation)
<b>4</b>	Bond Fund	UK Government bonds and other fixed interest assets
<b>3</b>	Money Market Fund	Cash deposits and other short term money market instruments

Funds 3, 4, 5 and 6 also form part of a Lifestyle Fund which is explained further in section 2.3.

Funds 3, 4, 5 and 6 ceased to be offered to new members from 1 April 2006.

### 2.2 WITH PROFITS FUNDS

<b>With Profits Funds</b>		
	<b>Fund</b>	<b>Invests primarily in</b>
<b>2</b>	With Profits Fund	Fixed interest assets, with other smaller investments in property, cash and equities
<b>1</b>	With Profits Fund	UK equities, UK fixed interest and property, with other investments in overseas equities, overseas fixed interest and cash

Fund 2 ceased to be offered to new members from 1 July 2001 and fund 1 ceased to be offered from 1 April 2006.

## 2.3 LIFESTYLE FUND

The Lifestyle Fund aims to offer members investment returns that exceed inflation over the longer term by investing entirely in equities during a member's younger years. This is followed by an automatic and pre-determined switch out of equities and into bonds and cash as the member approaches retirement with the aim of locking in the returns and providing some stability of returns and capital value prior to retirement.

New contributions in the Lifestyle Fund are invested as follows:

Fund		Percentage of contributions invested in each fund	
		More than 7 years from retirement	Less than 7 years from retirement
6	UK Equity Fund	50%	0%
5	International Fund	50%	0%
4	Bond Fund	0%	75%
3	Money Market Fund	0%	25%

More than seven years from retirement, the value of each member's Individual Account is rebalanced annually so that the relative exposure to each fund is kept in line with the asset allocation shown in the table above. This rebalancing involves selling units in one fund to buy units in another. This does not affect the total value of the member's Individual Account but only the proportion that is invested in each fund.

When the member reaches seven years from retirement, all existing investments are switched on a monthly or quarterly basis out of funds 5 and 6 and into funds 3 and 4 so that by the time the member reaches retirement their Individual Account is invested 75% in fund 4 and 25% in fund 3.

### 3. EXPECTED RETURNS

The expected investment returns from the pooled funds, as stated by the fund provider(s), are as follows:

	<b>Fund:</b>	<b>Benchmark:</b>	<b>Fund Objective:</b>
<b>13</b>	Property Fund	IPD UK Property Monthly Index	To achieve long-term growth by investing in retail, office, industrial and agricultural properties
<b>12</b>	UK Equity Tracker Fund	FTSE All-Share Index	To track the benchmark index (before fees)
<b>11</b>	Global Equity Tracker Fund	FTSE All World Developed ex-UK Index	To track the benchmark index (before fees)
<b>10</b>	UK Index-Linked Gilt Tracker Fund	FTSE UK Gilts Index-Linked Over 5 Years Index	To track the benchmark index (before fees)
<b>9</b>	UK Fixed Interest Gilt Tracker Fund	FTSE UK Gilts Over 15 Years Index	To track the benchmark index (before fees)
<b>8</b>	Corporate Bond Tracker Fund	iBoxx £ Non-Gilts Index	To track the benchmark index (before fees)
<b>7</b>	Money Market Fund	7 Day £ LIBID	To provide returns in line with the benchmark (before fees)
<b>6</b>	UK Equity Fund	FTSE All-Share Index	To outperform the benchmark by 0.9% (before fees) over rolling three year periods
<b>5</b>	International Fund	FTSE World Index	To outperform the benchmark by 2.0% (before fees) over rolling three year periods
<b>4</b>	Bond Fund	60%: FTSE-A 5-15 Year Gilt Index 40%: ML 5-15 Year £ Non-Gilt Index	To outperform the benchmark by 0.75% (before fees) over rolling three year periods
<b>3</b>	Money Market Fund	7 Day £ LIBID	To outperform the benchmark by 0.2% (before fees) over rolling three year periods

	<b>Fund:</b>	<b>Benchmark:</b>	<b>Fund Objective:</b>
<b>2</b>	With Profits Fund	Composite	The current solvency position of this insurer restricts the fund to following a conservative investment strategy
<b>1</b>	With Profits Fund	Composite	To generate capital growth over the medium to long term with some stability over the short term

The funds have been chosen due to the expected risk and return characteristics of the underlying assets within the funds. These expectations are disclosed in the following table:

<b>Asset type:</b>	<b>Expected risk and return characteristics:</b>
Equities	High volatility of capital value in the short term but expected to produce returns in excess of the rates of salary and price inflation in the medium to long term
Property	Expected to produce returns in excess of the rates of salary and price inflation over the long term but with less volatility of capital value than equities over the short term
Gilts and bonds	Capital values are likely to be less volatile than equities but tend to produce lower returns in the medium to long term. The value of Gilts and bonds are expected to move broadly in line with the price of annuities, providing some protection to the 'purchasing power' of a member's account near retirement
Cash	Low risk to capital and asset values are easily realisable, with limited investment returns associated with the low risk nature of the assets