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DC Investment Guide

When it comes to investments, you may be wondering where to start. This guide should help you decide how to invest your pension benefits within the Defined Contribution (DC) Section of the FDR Limited Pension Scheme ('the Scheme').

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The way in which your Member Account is invested is important. The Trustees invest your pension contributions in an individual retirement account for each member. The contributions built up in your Member Account provide benefits for you when you retire and can also provide for your family and dependants on death. These benefits depend on the value of your Member Account at the time of retiring, which in turn depends on how your Member Account has been invested throughout your working life.

We understand that investments and how to choose where to invest your Member Account can seem overwhelming. To help you, the Trustees have carefully selected a range of *funds* to choose from, as well as a range of investment choices called the '*Lifestyle Options*' which are designed to reduce the volatility of investments as you approach retirement. The investment structure of the Scheme has been designed to allow members to make an investment choice that best meets their needs, attitude to risk and general views on investments.

You have a responsibility to select the *fund* option(s) in which your retirement savings will be invested, and you are fully responsible for the decisions made with respect to your Member Account. Neither the Company, the Trustees, nor any investment manager is responsible for the consequences of your decision regarding which *fund* option(s) you select.

Note: As a member it is very important that you understand how the Scheme works, know which investment options are available within the Scheme, and make investment decisions that are right for you.

Independent financial advice

By law, neither the Trustees nor the Company can give you advice on choosing your investments. If you are uncertain about your investment choice, we strongly recommend you speak to an Independent Financial Adviser (IFA). Capita has partnered with a number of professional IFAs that can help you understand your options and provide advice where required. Should you wish to take advantage of this service, please click on the 'Managed Retirement Services' link on the scheme microsite – here: https://www.fdrlimitedpensionscheme.com/home/dc/at-retirement

You can also find a local IFA by contacting the Money Advice Service: https://www.moneyadviceservice.org.uk/en/articles/choosing-a-financial-adviser.

Investment Basics

Managing investments

Before you can decide how to invest your Member Account, you need to know how investment *fund*s are managed, the different types of investment, and the risk and return associated with investments. Investment *fund*s are managed generally in one of two ways – *passive* and/or *active.*

Passive

The investment manager chooses a market *index*, or combination of market indices, as a *benchmark*, and invests in broadly the same investments that make up that *benchmark*. The *fund* then aims to follow (or 'track') the returns for that *benchmark*. These *fund*s are known as *'passively managed'* or '*index funds'*. *Passively managed funds* are available at a lower cost than *actively managed funds*.

Funds managed in this way should never perform much better or worse than the underlying market *index* they are tracking.

For example, the UK Equity Fund aims to track the performance of the FTSE All Share *Index*.

Active

The investment manager uses their expertise to try to choose investments that will beat the returns of a particular *index*, or a particular return target. As a result, *actively managed funds* are generally available at a higher cost compared to *passively managed funds*.

Funds managed in this way may do better than the *index*, but they can also underperform if the manager makes the wrong decisions.

Types of investment

There are various types of investment. The ones that you need to know about when investing your contributions are explained below. This section is intended to provide you with generic guidance on investments. The Company, the Trustees, and their advisers are not able to provide you with any financial advice or make recommendations.

Any comments on performance and the suitability of each *fund* are based on past performance only. This is no guarantee that the future performance and stability of any *fund* will be the same as it was in the past.

In choosing your investment *fund*s, you should make a choice that best meets your needs, taking into account your personal circumstances and attitude to risk.

Equity funds

Equities (also known as company shares), are bought and sold on the stock market. The value of a share is largely determined by the performance of the issuing company plus market conditions. Historically, *equities* have produced good returns in the long term – better than *bond*s *or* cash – but they can fall as well as rise in value, sometimes quite sharply.

Bond funds

Bonds are loans to organisations or governments. *Corporate bond*s are *bond*s issued by public companies. *Bonds* issued by the UK Government are also called *gilts*. *Bonds* provide investment returns either at a fixed rate (fixed interest), or at a rate that is linked to inflation. *Bonds* are traded in a similar way to shares so their value rises and falls, but not usually as sharply as the value of shares. *Bond fund*s generally provide returns over the long term that are expected to be lower than *equities* but higher than cash.

Cash funds

Cash funds invest in a variety of money market investments, as well as deposit accounts. Their aim is to produce, in total, interest-rate like returns. Cash investments provide a reasonable level of protection against your capital value reducing. However, in certain market conditions, investments in *cash funds* can fall in value.

Diversified or Multi-Asset funds

A diversified *fund* invests in a variety of investments, that may include *equities*, *bond*s, *private equity, cash, commodities* and *property*. By investing in this way, the *fund* spreads the types of risk that an investor is exposed to. The *fund's* aim is to provide long-term investment growth through exposure to a diversified range of investments.

Responsible Investing

The Trustee board has a duty to consider environmental and social governance factors, including climate change, when selecting investments. In 2020 two of Legal & General's 'Future World' funds were added to the Self-Select fund range. These funds place particular emphasis on environmental and social governance issues. Also, in 2020 the HSBC Islamic Global Equity Index Fund was added to the Self-Select fund range for any member looking to comply with Islamic investment principles.

Risk and return

Each type of investment has the potential to deliver certain levels of return, but has certain risks attached.

What you might consider to be a suitable investment may change throughout your working life, as may your attitude to risk. When deciding where to invest you will need to think about how close you are to retirement, your personal circumstances, and whether you are generally a cautious investor or are comfortable taking some risk.

The table below lists the types of risk that should be considered when deciding which *funds* are appropriate for you.

Risk exposure						
Type of Risk	**Description**	**Equities**	**Bonds**	**Index-linked gilts**	**Cash**	**Multi-Asset**
Capital value risk	This is the risk that the value of your investments may fall in value.	High	Medium	Medium	Low	Medium
Inflation risk	This is the risk that your investment returns are lower than inflation and therefore the 'real' value of your investments goes down.	Medium	Medium	Low	Medium to High	Low to Medium
Opportunity cost risk	This is the risk that if you do not take sufficient investment risk when you can afford to do so (such as when you are younger and can recover from short term falls in the value of investments), you may end up with a smaller Member Account at retirement.	Low	Medium	Medium	High	Low to Medium
Conversion risk	This is the risk that your investments do not change in value in line with the change in the price of an *annuity*. The cost of converting your investments into an *annuity* is partially linked to the price of *bonds* and *gilts*.	High	Low	Low	Medium to High	High

Self-select options

The Scheme's *funds* are all managed by Legal & General Investment Management (L&G) and are summarised below.

Fund Name	Style	Aim	May be Suitable For
Equities			
L&G PMC Global Equity MW (30:70) 75% GBP Hdg Fund (Formerly known as Global Equity Fund)	*Passive*	Aims to capture the total returns of the UK and overseas *equity* markets. Currently maintains a 30%/70% weighting between the UK and the overseas assets. Includes some *currency hedging* to reduce currency risk and exposure.	Early to mid-career, some way from retirement
L&G PMC UK Equity Index Fund (Formerly known as UK Equity Fund)	*Passive*	Aims to capture UK *equity* market returns.	
L&G PMC World (ex UK) Equity Index - GBP Hdg (formerly known as Overseas Equity Fund)	*Passive*	Aims to capture world market returns (excluding UK). Includes some *currency hedging* to reduce currency risk and exposure.	
L&G PMC Future World Fund (Introduced 2020)	*Passive*	Aims to replicate the performance of the 'FTSE All-World ex CW Climate Balanced Factor Index'. The index is designed to favour investment in companies which exhibit characteristics that have historically led to higher returns or lower risk than the market as a whole, and companies which are less carbon-intensive or earn green revenues. The fund will also exclude shares issued by manufacturers of Controversial Weapons.	
L&G PMC HSBC Islamic Global Equity Index Fund (Introduced 2020)	*Active*	Aims to create long term appreciation of capital through investment in a diversified portfolio of securities as defined by a relevant world index, which meets Islamic investment principles as interpreted and laid down by the Shariah Supervisory Committee.	

Bonds			
L&G PMC Pre-Retirement Fund (formerly known as UK Bond Fund)	*Passive*	Aims to capture *bond* market returns by investing in UK Government *bonds* (also known as *gilts*) and sterling denominated *corporate bonds*. All of the *bonds* in this fund pay a fixed rate of interest.	Mid to late career (if looking to reduce Capital Value risk compared to *equities*), approaching Retirement (if looking to reduce Conversion Risk)
L&G PMC Over 5y Index-Linked Gilts (formerly known as UK Inflation Linked Bond Fund)	*Passive*	Aims to invest in UK Government index-linked *bonds* (also known as index-linked *gilts*). These *gilts* pay a rate of interest that increases in line with inflation.	
Cash			
L&G PMC Cash Fund (Formerly known as Cash Fund)	*Active*	Aims to obtain competitive short-term rates of interest through cash deposits and short-term investments. Capital preservation is considered to be of paramount importance and as a result the return achieved on cash investments has historically been less than other types of investments.	Nearing retirement and wish to limit the risk to your investments reducing in value
Multi Asset			
L&G PMC Multi Asset Fund (Formerly known as Diversified Portfolio Fund)	*Active*	Aims to provide long-term investment growth through exposure to a diversified range of asset classes.	Early to mid-career, some way from retirement
L&G PMC Future World Multi Asset Fund (Introduced 2020)	*Active*	Aims to provide long-term investment growth while reflecting significant environmental, social and corporate governance issues into the fund's investment strategy.	
L&G PMC Retirement Income Multi Asset Fund (Introduced 2020)	*Active*	Aims to provide long-term investment growth up to and during retirement to facilitate the *drawdown* of retirement income.	Approaching Retirement (if looking to *drawdown* an income and leave some funds invested)

Lifestyle Options

If you do not wish to make your own fund choices, you can select one of the Lifestyle strategies. There are four lifestyle strategies available which are designed to meet different retirement objectives. Please see the following section for more information.

It is important that each member considers his or her own situation and the extent to which they wish to be actively involved in investment decisions and *fund* selection over time. If you are uncertain about your investment choice, we strongly recommend you speak to an independent financial adviser (IFA).

Capita has partnered with a number of professional IFAs that can help you understand your options and provide advice where required. Should you wish to take advantage of this service, please click on the 'Managed Retirement Services' link on the scheme microsite – here: https://www.fdrlimitedpensionscheme.com/home/dc/at-retirement

You can also find a local IFA by contacting the Money Advice Service: https://www.moneyadviceservice.org.uk/en/articles/choosing-a-financial-adviser

If you don't make a choice, your account will be invested in the Default *Lifestyle Option*. This is simply a 'default' strategy designed by the Trustees to meet the reasonable needs of members that don't make an investment choice.

Monitoring performance

The Trustees will continually monitor the performance of the *fund* managers they have appointed on a regular basis. The Trustees may appoint other Investment Managers and may change the investment options available to you should they feel it is in your best interests. You will be advised if any changes are made.

You can monitor and review the performance of your Member Account through:

♦ the investment performance tool under the 'Investment Options' section of the Scheme website www.fdrlimitedpensionscheme.co.uk/dc (click on 'Log in to Hartlink Online')
♦ your annual Benefit Statement which will show the value within your Member Account including a projection of the benefits that may be available at your chosen Normal Retirement Date (NRD); and
♦ the annual Newsletter.

Switching investments

It is important you regularly review your investments choices to fit your personal circumstances which are likely to change as you go through life. You can change your investment choice online at any time, with no administration charge, although the Trustees reserve the right to levy an administration charge if the number of switches is considered unreasonable.

You can access the switching area of the Scheme's website by logging on to your Member Account online at www.fdrlimitedpensionscheme.co.uk/dc (click on 'Log in to Hartlink Online')

The Lifestyle Options

The Trustees with the help of their advisers have put together four different lifestyle strategies to meet different retirement objectives.

In each case, your Member Account is invested for growth in the early years and is then moved into lower risk funds over the last 3 years as you approach your selected retirement age. The default retirement age is 65 but you may select an alternative if you plan to retire earlier or later than this.

At retirement you have several options for how you use your Member Account.

- Take a cash sum. Up to 25% of your Member Account can be taken tax free;
- *Drawdown* an income from your fund whilst leaving the remaining funds invested (This option is not available directly from the Scheme but on retirement you can transfer your funds to another scheme which will allow you to do this);
- Buy an *annuity* which provides a guaranteed income for life;
- If you also have DB benefits in the Scheme, and you take these benefits at the same time, 25% of the combined DB and DC benefits can be taken tax free.

The default lifestyle strategy is designed to suit a broad range of options that people might choose to take but it is not aimed at any specific option.

From 2020 the Trustees have introduced three new lifestyle options for members who are planning to take their benefits in a particular way. The existing lifestyle strategy will continue to be the default unless you choose to move to one of the three new lifestyle strategies.

There are now four lifestyle strategies to choose from:

- Default Lifestyle Strategy
- Cash Lifestyle Strategy
- Drawdown Lifestyle Strategy
- Annuity Lifestyle Strategy

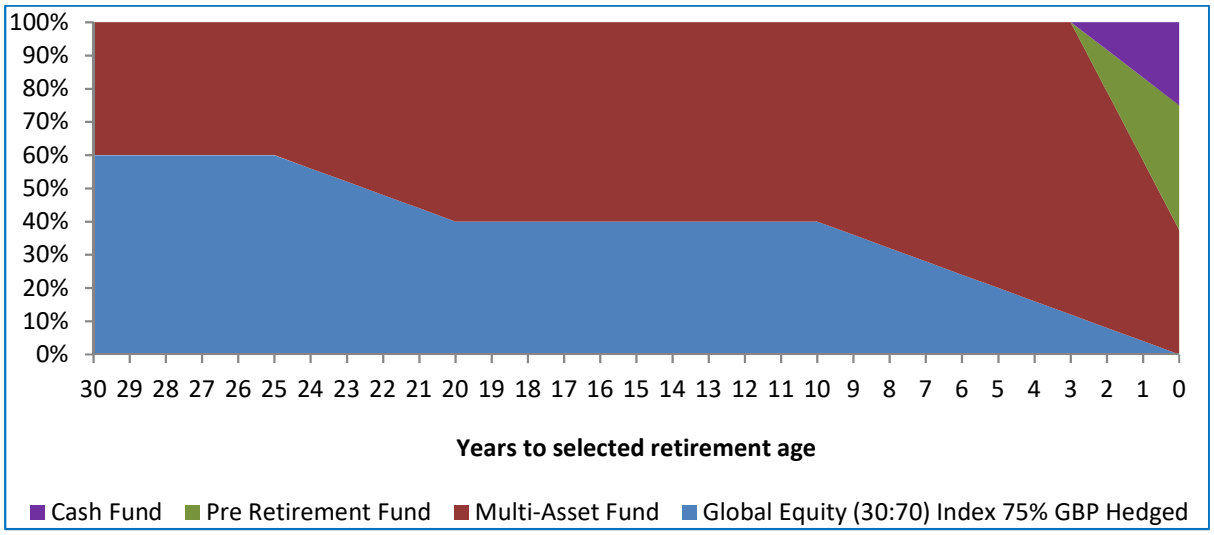
Each of these is set out in more detail below.

Default Lifestyle Strategy

The default lifestyle strategy is designed to invest for growth in the early years and then move gradually into less volatile funds as you approach your selected retirement age. If you are 3 years or more from retirement, your Member Account is invested entirely in growth assets which includes a combination of Legal & General's Multi-Asset and Global Equity funds.

In the 3 years before your selected retirement age, your funds will automatically be switched into Legal & General's Pre-Retirement Fund and Cash Fund so that at your selected retirement age your money will be held 25% in the Cash Fund, 37.5% in the Pre-Retirement Fund and 37.5% in the Multi-Asset Fund.

The default lifestyle strategy is illustrated in the graph below:

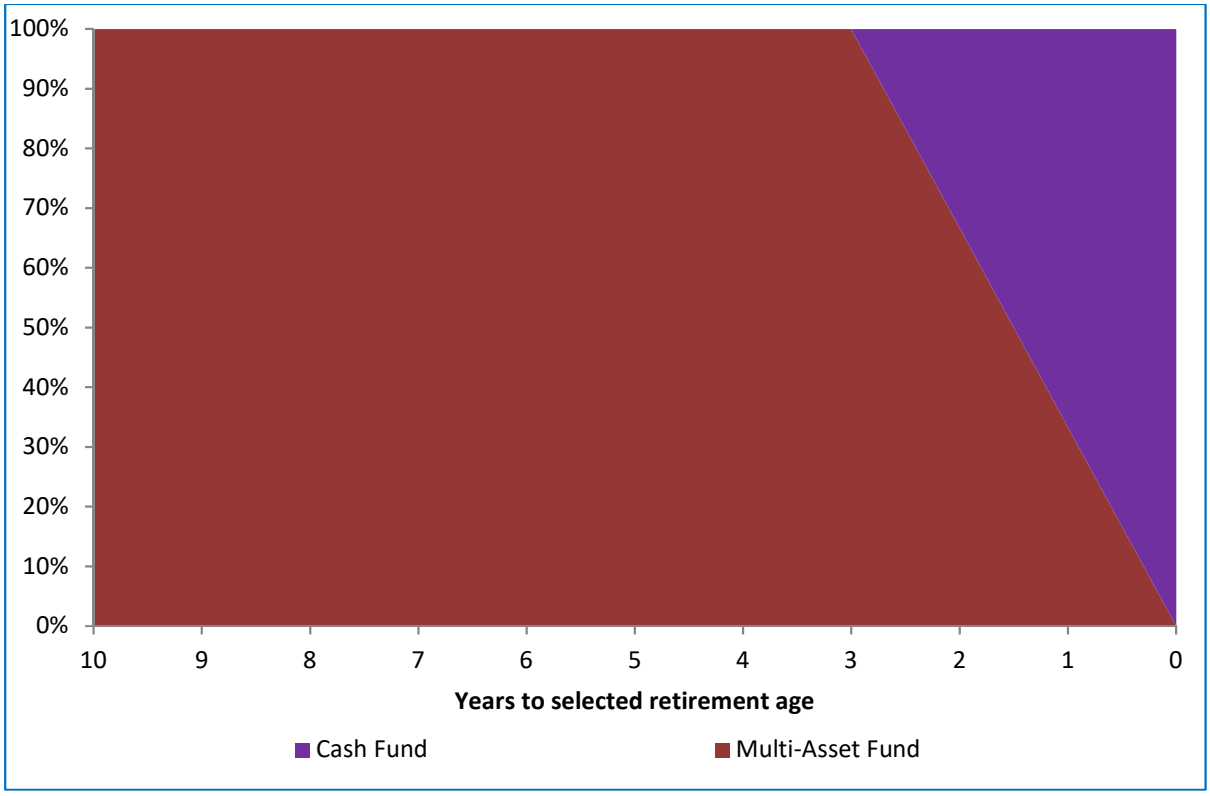


Note that members who were already within 10 years of retirement prior to 1 August 2020 will remain in the legacy lifestyle which switches funds over a 10 year period. Members in this option may choose to move to one of the other lifestyle strategies if they wish.

Cash Lifestyle Strategy

This arrangement is designed for members who are likely to take their pension pot as a single lump sum payment on retirement. Legal & General's Multi-Asset Fund will be used during the growth stage. 3 years before your selected retirement age your funds will be moved into the Cash Fund. When you reach your selected retirement age your pension pot will be invested 100% in the Cash Fund.

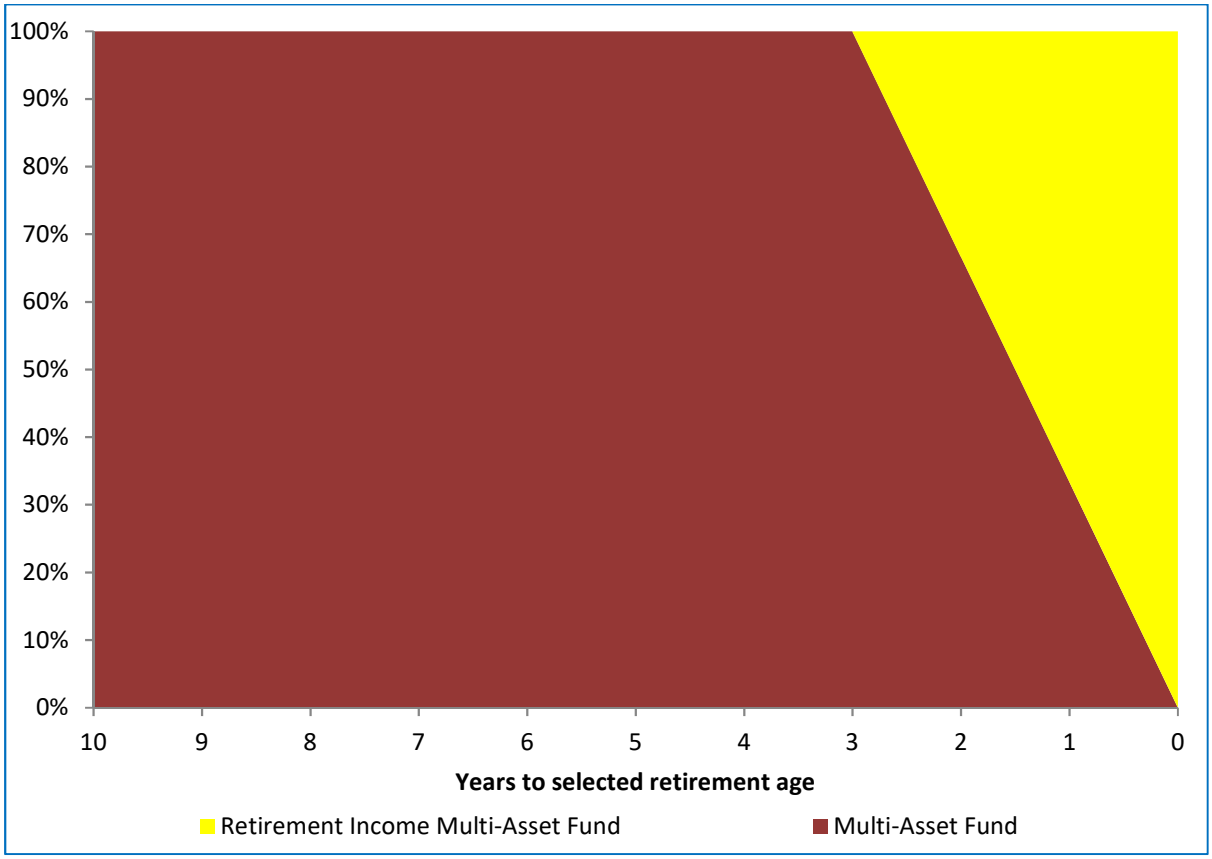
The graph below shows how the funds would be invested during the 10 years leading up to your selected retirement age.



Drawdown Lifestyle Strategy

This arrangement is designed for members who are looking to make use of *income drawdown* (known as Flexi-Access Drawdown). Legal & General's Multi-Asset Fund will be used during the growth stage. 3 years before your selected retirement age your funds will be moved into the Retirement Income Multi-Asset Fund.

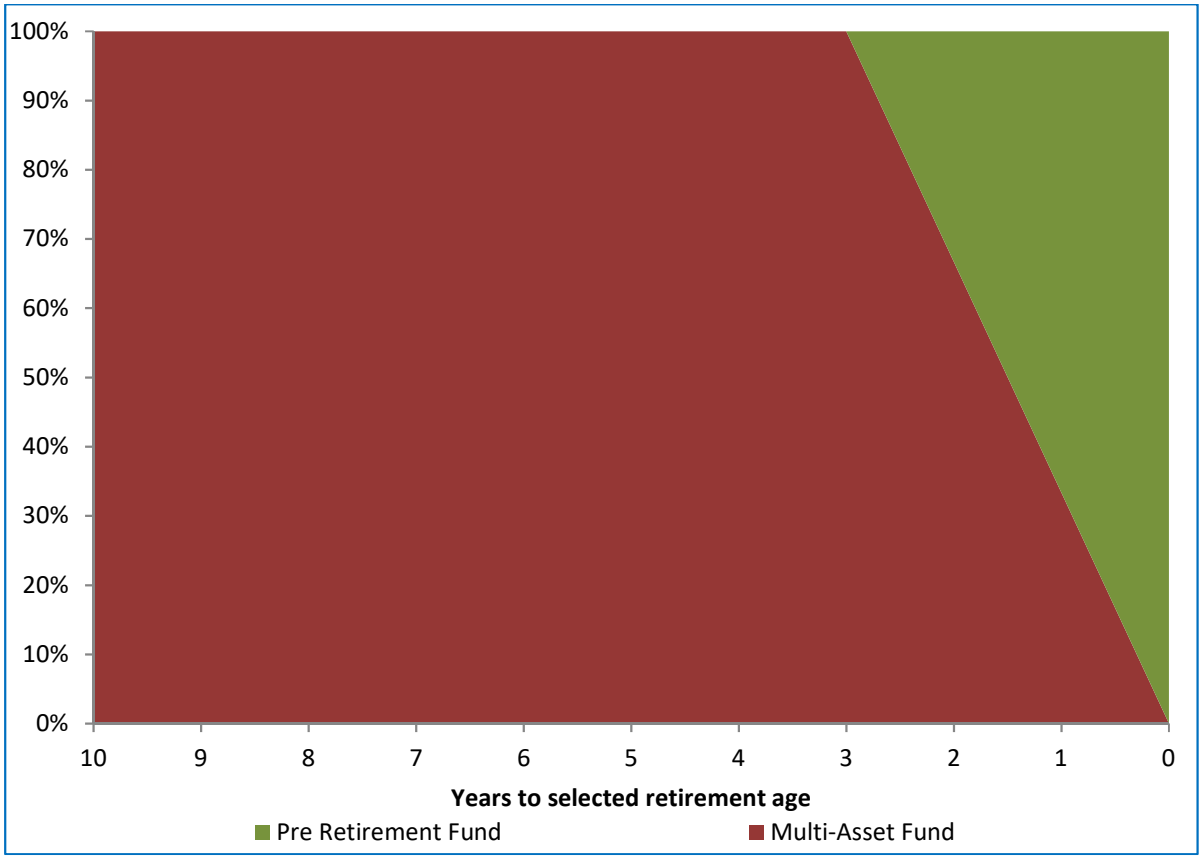
The graph below shows how the funds would be invested during the 10 years leading up to your selected retirement age.



Annuity Lifestyle Strategy

This arrangement is designed for members who are looking to use their pension pot to buy an *annuity* to provide a guaranteed, regular income in retirement. Legal & General's Multi-Asset Fund will be used during the growth stage. 3 years before your selected retirement age your funds will be moved into the Pre-Retirement Fund.

The graph below shows how the funds would be invested during the 10 years leading up to your selected retirement age.



Target retirement date

In order to allow for possible early retirement, members may nominate a target retirement date between 55* and 65. In this case, switching will start three years before the members' target retirement date. The selected target retirement date may be changed at any time. Selecting a target retirement date for this purpose is purely an investment related decision. It does not guarantee any entitlement to retire early, as this will still be subject to the normal terms and conditions of the Scheme, and any relevant legislation.

* From 2028 the Government is increasing the minimum pension age to 57.

Charges

The investment charges associated with the Scheme's *funds* offered are currently as follows:

The former names of the funds are shown for information purposes as they may appear in past benefit statements and newsletters.

Former Name	New Name	Annual Management Charge
Global Equity Fund	PMC Global Eqty MW (30:70) 75% GBP Hdg Fd	0.200%
UK Equity Fund	PMC UK Equity Index Fund	0.100%
UK Index Linked Bond Fund	PMC Over 5y Index-Linked Gilts	0.100%
UK Bond Fund	PMC Pre-Retirement Fund	0.150%
Cash Fund	PMC Cash Fund	0.125%
Overseas Equity Fund	PMC World (ex UK) Eqty Index - GBP Hdg	0.243%
Diversified Portfolio Fund	PMC Multi Asset Fund	0.250%
N/A	PMC Future World Fund	0.350%
N/A	PMC Future World Multi Asset Fd	0.300%
N/A	PMC Retirement Income Multi Ast Fd	0.350%
N/A	PMC HSBC Islamic Glbl Eqty Index Fd	0.350%

Annual charges are included in the *unit price* of each fund. The fees and charges may be changed from time to time. If there is a significant change, you will be informed prior to any changes being made.

Making your investment choices

Changing your investment choice

Once you have made your investment *fund* selection, you will have the option to change this selection. You can switch existing investments online at any time, with no administration charge, although the Trustees reserve the right to levy an administration charge if the number of switches is considered unreasonable. You can access the switching area of the Scheme's website by logging on to your Member Account on line here: www.fdrlimitedpensionscheme.co.uk/dc (click on 'Log in to Hartlink Online')

Further Information

Please see the DC Section Scheme Booklet for information about your benefits from the Scheme. If you have any queries about the Scheme or your benefits, please contact:

By email: fdr@capita.co.uk

Or call the FDR Pension Scheme helpline on: 0345 604 5316

By post:

FDR Limited Pension Scheme, Capita, PO Box 555, Stead House, Darlington, DL1 9YT

Jargon Buster

Certain terms, which are printed in italics in this booklet, have particular meanings. These are defined below:

Active Management: A *fund* management approach, where the *fund* manager attempts to outperform a given *index* using skill and judgment. See also *Passive Management*.

Annuity: An “income for life” contract sold by an insurance company designed to provide payments to the holder at specified intervals (eg monthly), usually after retirement and until death.

Asset Allocation: The mix of broad investment categories such as *equities*, *bond*s, *property* and cash.

Benchmark: A standard used for comparison against which a *fund*’s performance will be judged. Usually this will be either an *index* or a *fund* peer group.

Bond: A contract in which a “bondholder” lends money to an “issuer”. The issuer promises to pay the bondholder interest for a fixed time period and to repay the debt at maturity. *Bonds* are considered to be medium risk investments, with correspondingly lower returns than *equities*.

Cash (Funds): A *fund*, where cash is lent to a bank or company and (small levels of) interest is received in return. Historically, this type of investment has offered the strong capital protection but in certain circumstances *cash funds* can go down in value.

Commodities: Raw materials, such as gold, oil and copper. *Funds* can invest in this type of investment in a number of ways: buying directly, investing in companies (eg an oil company) or using financial instruments.

Corporate Bond: A bond issued by a company.

Currency hedging: A strategy used by a *fund* manager to reduce the fluctuations in value of an investment denominated in a foreign currency due to the changing exchange rate.

Equities: Shareholders contribute capital in order to finance a business. In return the shareholder receives *equities*, also known as shares. Equities historically have had higher returns than other investments but can fluctuate in value. Returns are comprised of changes to the share price and dividends paid out.

Fund: An investment vehicle which invests in a group of investments in accordance with a stated set of objectives. Investors into the *fund* benefit from the range and quantity of investments.

Income drawdown: A specialised product whereby an investor continues to keep their Member Account invested in one or more *funds* after retirement, and is able withdraw an income at regular intervals.

Index: A *benchmark* against which financial or economic performance is measured such as the FTSE All Share Index or the Retail Prices Index.

Lifestyle Option: A commonly used strategy for defined contribution schemes. This attempts to accommodate the needs of members by altering the *asset allocation* as the member nears retirement. Under this approach, a member's assets are initially invested in an *equity*-based growth *fund* and gradually transferred to a combination of less risky investments as they approach retirement.

Passive Management: An approach where the *fund* manager attempts to track the performance of an *index.*

Private Equity: Shareholders contribute capital in order to finance a business. In return the shareholders receive *equities*, also known as shares. However, unlike traditional *equities*, these are not listed on a public exchange and therefore cannot be accessed by all investors.

Property: In the context of pension investing, this usually refers to commercial property (warehouses, offices, shopping centres etc). *Funds* can invest in this type of investment in a number of ways: buying directly, investing in companies (eg a property development company) or using financial instruments.

Unit Price: Reflects the value of the underlying assets/securities in a fund on any given date.