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 *fund*s to choose from, as well as an investment choice called the '*Lifestyle Option*' which is designed to reduce 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).You can find a local IFA by contacting IFA Promotion Ltd at **www.unbiased.co.uk**.

First Data

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 funds

A diversified *fund* invests in a variety of investments, including *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.

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 *fund*s are appropriate for you.

		Risk exposure				
Type of Risk	**Description**	**Equities**	**Bonds**	**Index-linked gilts**	**Cash**	**Diversi-fied**
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 *fund*s are summarised below.

Fund Name	Management Style	Aim	May be Suitable For
Equities			
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
UK Equity Fund	*Passive*	Aims to capture UK *equity* market returns.	
Overseas Equity Fund	*Passive*	Aims to capture world market returns (excluding UK). Includes some *currency hedging* to reduce currency risk and exposure.	
Bonds			
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)
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			
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
Diversified			
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

Lifestyle Option

The *Lifestyle Option* adjusts the *asset allocation* of the *fund* from a high risk to a lower risk approach as the member approaches retirement. The *fund*s under the *Lifestyle Option* are:

♦ Global Equity Fund
♦ Diversified Portfolio Fund
♦ UK Bond Fund
♦ Cash Fund

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). You can find a local IFA by contacting IFA Promotion Ltd at **www.unbiased.co.uk**.

If you don't make a choice, your account will be invested in the *Lifestyle Option*. This is simply a 'default' strategy designed by the Trustees to meet 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 Option

The needs of Scheme members: the early years

Professional investment advisers generally agree that members who are many years from expected retirement are often in a position to take higher levels of risk in an attempt to maximise the return on their contributions over the long term. Investing in a *fund* with a high *equity* exposure is generally thought to be the best approach for investors with this type of profile, since these members have many years to withstand the swings in price typical of *equity* investments. These investments have usually outperformed other types of investments when measured over long periods of time.

The needs of Scheme members: the later years

At retirement, you have a number of options:

♦ Take up to 25% of your Member Account as a tax free cash lump sum
♦ Take the remaining 75% - 100% as:

a. an *annuity*;
b. an *income drawdown*;
c. A cash lump sum, which will be taxed at your marginal rate;
d. A mixture of a to c above.

Therefore, it is generally agreed that members approaching retirement should be focussed on investments that have a relatively stable value and best match their individual retirement goals, whether that is to purchase an *annuity*, enter into *income drawdown*, take a cash lump sum, or a mixture of these.

Lifestyle Option

The *Lifestyle Option* is designed to reflect the above general approach to retirement savings by being responsive to what professional investment advisers generally accept as normal investment needs of members as they approach retirement. Members far from retirement are generally more prepared to take investment risk with the expectation of better returns than what is available from relatively 'safe' (less volatile) assets. The Scheme's *Lifestyle Option* has therefore been structured so that members who select this option have their Member Accounts invested in a combination of *equities* and the Diversified Fund when they are more than ten years from their expected retirement date.

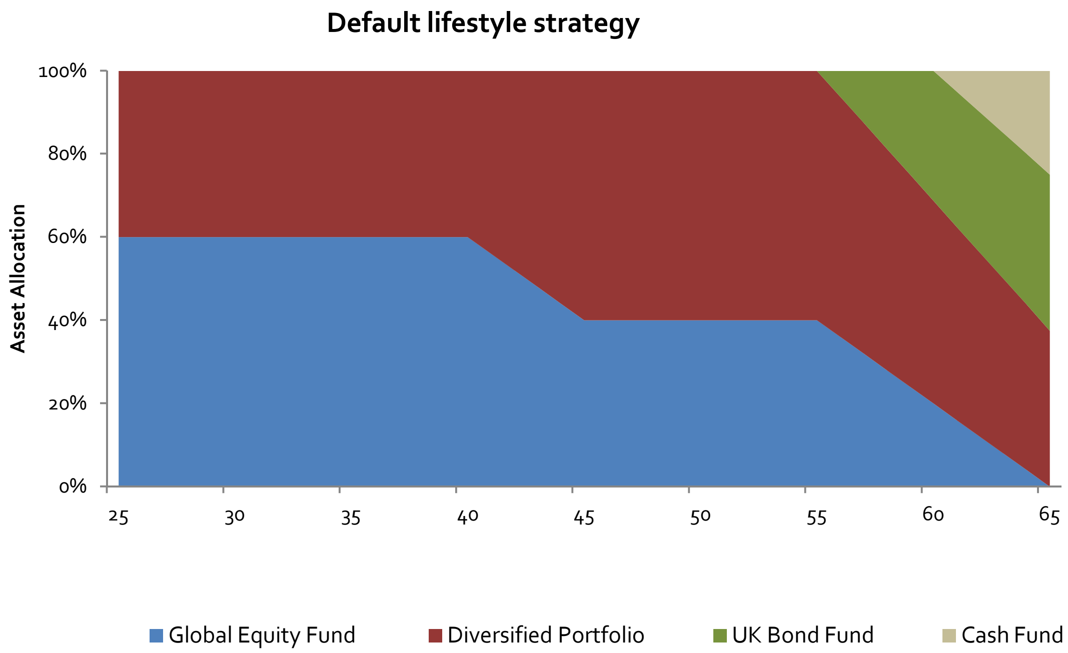
As members approach retirement, their Member Accounts are moved to lower-risk, lower growth *funds* – this is known as the consolidation phase. Moving your Member Account like this helps to provide security and stability for your retirement benefits.

Within this consolidation phase, the *Lifestyle Option* seeks to invest in a number of funds to provide you with a balanced opportunity to take advantage of any of the above options:

♦ The UK Bond Fund – the cost of purchasing a pension depends on the *annuity* purchase rates, which are broadly linked to the yields on long dated *bonds*.
♦ The Diversified Portfolio Fund - this provides investment growth through exposure to a diversified range of asset classes.
♦ The Cash Fund - this is generally viewed to be the lowest risk asset to invest in leading up to retirement in order to support your cash lump sum option.

In most cases, no single investment option can adequately meet the needs of all members. The *Lifestyle Option* aims to provide a vehicle that assumes an appetite for investment risk for members some time from retirement, but also expects risk appetite to reduce as retirement approaches. However, it is still critically important that members who select this option continue to monitor their investment choice to ensure it still meets their current individual circumstances.

Members' investments are switched on a monthly basis in the ten-year period leading up to retirement. The graph below shows how your Member Account would be invested if in the *Lifestyle Option (assuming a target retirement age* of 65):



Switching period

The switch into *bond*s takes place over the ten years immediately preceding retirement. The move into the Cash Fund will take place over the last five years of the ten-year switching period.

Funds underlying the Lifestyle Option

The *fund*s which underlie the *Lifestyle Option* are:

♦ Global Equity Fund
♦ Diversified Portfolio Fund
♦ UK Bond Fund
♦ Cash Fund

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 ten 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:

Fund Name	**Charge on Assets Managed**
Global Equity Fund	0.20% p.a.
Overseas Equity Fund	0.243% p.a.
UK Equity Fund	0.10% p.a.
UK Bond Fund	0.15% p.a.
UK Inflation Linked Bond Fund	0.10% p.a.
Cash Fund	0.125% p.a.
Diversified Portfolio Fund	0.25% p.a.

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 at **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, 2 Cutlers Gate Sheffield S4 7TL

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.