

Guaranteed Pension Fund update

July-December 2011

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Introduction

Welcome to the latest issue of these regular six-monthly updates for the Skandia Guaranteed Pension Fund (the 'Fund'). This Update covers the second half of 2011.

You hold the Fund as one investment option within your Skandia pension. The Fund has been closed to new investments since October 2002. It retains investments made before that date and continues to operate to best achieve its aims as set out in the next section.

In the second half of 2011 the issues for the world economy expanded beyond the European sovereign debt crisis highlighted in the last Update, to include the United States of America. In August the USA lost its AAA credit rating for the first time in history. This announcement was followed by a collapse in equity share prices around the world. In the UK, for example, the benchmark index of the top 100 companies, the FTSE 100, fell by over 15% in just four weeks. In the third quarter of 2011, the Dow Jones Industrial Average Index of leading US shares fell 12% and the Euro Stoxx 50 index of Europe's leading shares fell 25%. The Governor of the Bank of England warned that Britain could be in the grip of the most serious financial crisis at least since the 1930s, if not ever.

However, as the UK retained its AAA credit rating it was regarded as a safe haven for investors and this increased the demand for UK Government bonds (gilts). Rising demand resulted in higher prices and lower yields. For example, the yield on 15 year gilts and on the portfolio of gilts held by the Guaranteed Pension Fund fell by around 40%. The yield on 10 year gilts reached their lowest level since they were first issued in the 1950s.

The key concern in the ongoing sovereign debt crisis continued to be whether Greece would default on its debts in an orderly way

(with the agreement of its lenders) or in a disorderly way and the impact this would have on the Euro currency and European economies.

During the six month period covered by this Update, the Board of Directors of Skandia Life maintained its view that abnormal or extreme conditions, referred to in previous Updates, continued to apply.

With two thirds of its assets invested in gilts, the Guaranteed Pension Fund benefited significantly from the rising price of gilts. These capital gains helped to offset the losses made on the equities mentioned above and this allowed bonuses to be added in four of the six months covered by this Update.

Looking ahead, however, the picture is very different because the reduction in gilt yields means that future expected returns on the assets in the Fund have been reduced. Also, a significant rise in the price of any asset can often be followed by a fall back in that price and if this were to happen with gilts then, as bonuses once added cannot be taken away, the Fund could be in a position, possibly for an extended period, where no further bonuses can be added and discounts (see [question 5](#)) will be applied to investors leaving the Fund before their Selected Guarantee Date.

It is important that you continue to review whether or not the Fund still meets your investment needs. There are other investment options available within your Skandia pension that you can choose to move your investments to, and these may be better suited to meet your goals.

Please read this Update carefully to assess your options. We recommend you consult your financial adviser to decide the course of action best suited to your needs.

Fund aims

The Fund has two aims:

- To guarantee £1 for each unit you hold on your Selected Guarantee Date.
- To maximise the growth through the allocation of bonus units subject to not adversely affecting the long-term solvency of the Fund.

This Update keeps you informed on how these aims are being met and the prospects for these aims in the future. Please see [question 7](#) for details of where to get additional information on the Fund.

Action required by you

You need to decide which of the following three options continues to best meet your needs:

1. you can choose to remain in the Fund and continue to enjoy the guarantee of £1 for each unit you hold on your Selected Guarantee Date, or
2. you can switch* now to an alternative fund or funds that you consider may offer better prospects for growth but without any guarantee of future value – such a switch may take place at a value of less than £1 per unit depending on whether a discount applies (see [question 5](#)), or

3. you can use the Special Switching Service to pre-book a switch* out of the Fund on the next occasion that an encashment price of £1 per unit applies (see [question 6](#)).

For general queries about your pension plan please call 0844 556 0821. For queries about your current unit position and the value of your investment on switching out of the Fund, please see the schedule in the letter that accompanied this Update or call 0844 556 0821.

Skandia can provide you with information on your investment but is unable to provide advice. We recommend that you consult your financial adviser on whether this investment is still suitable for your needs.

The following questions and answers have been produced to keep you up to date and to provide you with some information that might be helpful in reviewing whether investment in the Fund continues to meet your needs.

Your questions answered

1. How is the Fund invested?

The Fund currently invests in UK Government bonds (gilts) and stocks and shares (equities). The Fund is managed in such a way as to meet the aims set out above, ie to provide a guarantee of £1 per unit at the Selected Guarantee Date chosen by each individual investor and also to provide for the prospects of bonuses to be added.

During the second half of 2011 the proportion of the Fund invested in equities reduced slightly, compared with the previous Update, to 35%. The proportion invested in gilts, therefore, increased to 65%.

A more detailed breakdown of how the Fund is currently invested is available on our website at www.skandia.co.uk/funds/gpf/asset-allocation/
The figures on this site are updated monthly.

To manage the Fund prudently Skandia must arrange the investments of the Fund so that when investors reach their Selected Guarantee Date, the Fund is able to sell the necessary investments and provide the guarantee of £1 per unit, if possible, without impacting the remaining investors. This means that the Fund will hold fewer equities and more fixed-interest investments (such as gilts and term based deposits) as investors get closer to their Selected Guarantee Date.

Skandia keeps the investment profile of the Fund under constant review. In the light of the recent increase in the price of gilts and the resulting substantial fall in yields, Skandia will consider whether to continue to maintain the current investment of the Fund in gilts or to consolidate the gains.

2. What bonuses have been added in the last six months?

As mentioned in the [Introduction](#), equity markets reacted adversely to the USA losing its AAA credit rating in August and the markets fell to their lowest level for the year soon after that downgrade was announced. At the end of August and September the Fund was below parity (the point at which the value of the assets in the Fund is equal to the number of units in issue) and no bonuses were allocated.

At the end of July, October, November and December the gains made on the gilts, also referred to in the [Introduction](#), took the Fund above parity and for these months bonuses were determined by the fixed rules.

Month (2011)	Bonus on Contribution Units	Bonus on Bonus Units	Additional bonus on Contribution B Units
July	0.0812%	0.2341%	0.1529%
August	0.0000%	0.0000%	0.0000%
September	0.0000%	0.0000%	0.0000%
October	0.2466%	0.7399%	0.4933%
November	0.0771%	0.0267%	0.0000%
December	0.6982%	2.0945%	1.3963%

The full bonus history of the Fund is available on our website at www.skandia.co.uk/funds/gpf/bonus-rates/

* Switches are free of any administration charge.

3. What are the prospects for the Fund?

Looking ahead, the reduction in gilt yields referred to in the [Introduction](#) means that future expected returns on the assets in the Fund have been reduced. Also, a significant rise in the price of any asset can often be followed by a fall back in that price and if this were to happen with gilts then, as bonuses once added cannot be taken away, unless the one third of the Fund invested in equities performs strongly enough to offset the falls in the two thirds invested in gilts, the Fund will be in a position, possibly for an extended period, where no further bonuses can be added and discounts (see [question 5](#)) will be applied to investors leaving the Fund before their Selected Guarantee Date.

The conditions for world economies, stock markets and hence equities continue to be very difficult. In the UK and around the world there is a concern about another recession.

The Directors and the With-Profits Committee will continue to keep the situation under close review. They believe that as there continues to be only a limited chance of a significant improvement in the economic situation in the near future (a view also expressed in the last Update) abnormal or extreme conditions will continue to apply to the Fund.

4. What are my alternative fund options?

The Skandia Guaranteed Pension Fund is one of a number of investment fund options within your Skandia pension and you can change, or 'switch', your investments from the Fund into one or more of those funds at any time. The funds available offer a wide variety of different investment styles and opportunities for growth and can be used to create a portfolio to meet your investment needs. It is important to note that any amount switched from the Fund will no longer benefit from a future guaranteed value on your Selected Guarantee Date** and this message is included on the switch form.

If you wish to switch out of the Fund now, you need to complete the enclosed Switch Form and tick Box A. We will value your units on the day we receive your switch instruction. There is no administrative charge for switching, so the full amount, subject to any relevant discount (explained in [question 5](#)), will be reinvested in the Skandia Life Deposit Fund.

Alternatively, you can use the Special Switching Service to pre-book a switch out of the Fund into the Skandia Life Deposit

Fund on the next occasion that an encashment price of £1 per unit applies. If you wish to use this service please complete the enclosed Switch Form and tick Box B – see [question 6](#). There is no charge for using this service.

In both cases, Skandia will notify you as soon as practically possible after the switch has taken place so you can consider whether switching from the Deposit Fund to other funds may be more appropriate for your circumstances.

You can make further switches between funds in the future, to best match your investment goals, giving you future flexibility. Your financial adviser will be able to help you choose the most appropriate mix of funds for your portfolio.

Of course, you can choose to remain in the Fund and benefit from the guaranteed value of £1 per unit on your Selected Guarantee Date.** In addition, and dependent upon market conditions, you may receive further bonus unit additions.

5. Will the guaranteed value of my units be discounted on switching out of the Fund before my Selected Guarantee Date?

One of the fundamental principles of the Fund is that the total encashment value of all the units in the Fund is always equal to the total value of the assets held by the Fund. As asset values vary daily, the encashment value of each unit is calculated daily to ensure that the total assets of the Fund are always shared fairly between all the investors.

If you leave the Fund before your Selected Guarantee Date and the value of the assets held by the Fund is equal to the number of £1 units in issue then the Fund is said to be at parity and all units can be encashed for £1 each regardless of how far away you are from your Selected Guarantee Date.

If you leave the Fund before your Selected Guarantee Date and the value of the assets held by the Fund is less than the number of £1 units in issue then a discount will apply and the encashment value of some or all units will be less than £1 each.

The following table compares the discounted values which would have applied for each £1 unit as at the date of this Update with each of the previous three Updates. Figures are shown for two indicative outstanding terms to the Selected Guarantee Date of 60 and 120 months.

Date	60 months outstanding		120 months outstanding	
	Discounted value of Contribution Units	Discounted value of Bonus Units	Discounted value of Contribution Units	Discounted value of Bonus Units
01/07/2010	£1	95p	£1	95p
04/01/2011	£1	£1	£1	£1
01/07/2011	£1	98p	£1	98p
03/01/2012	£1	£1	£1	£1

See Important Notes overleaf

** Unless you have a trustee investment plan, the guarantee of £1 per unit will also apply on your death before your Selected Guarantee Date.

5. Will the guaranteed value of my units be discounted on switching out of the Fund before my Selected Guarantee Date? *(continued)*

IMPORTANT NOTES

- Please remember that, as illustrated on the previous page, the presence of a discount and its size will vary from day to day depending on financial markets. Discounted values of units are calculated daily and, for both contribution and bonus units, you could get less than £1 per unit on leaving the Fund before your Selected Guarantee Date.
- Please note that all the units you have built up in the Fund, including bonus units, are guaranteed to be redeemed for £1 each at your Selected Guarantee Date.**
- If you would prefer to switch out of the Fund without a discount applying to your units, you can use the Special Switching Service to pre-book a switch out of the Fund – see [question 6](#).

6. Can I use the Special Switching Service?

Yes. The Special Switching Service was introduced over five years ago and since then it has been used by a large number of investors to switch out of the Fund, prior to their Selected Guarantee Date, at £1 per unit.

If you would like to use the Special Switching Service to pre-book a switch from the Fund into the Skandia Life Deposit Fund on the

next occasion that an encashment price of £1 per unit applies, then please complete the enclosed Switch Form and tick Box B. You can also obtain this form from your financial adviser or by logging onto www.skandia.co.uk/funds/gpf/

7. Where can I get additional information?

Detailed information about the Fund including the options that are available to you is contained in the document [An Investor's Guide](#) sent to you when you first invested in the Fund.

Copies are available from

www.skandia.co.uk/funds/gpf/investors-guide/

For up to date information about the Fund, copies of the latest annual reports from the Directors and from the With-Profits Actuary and the latest versions of our documentation including [The Principles and Practices of Financial Management \(PPFM\)](#) and [A guide to how we manage our with-profits fund](#) please visit www.skandia.co.uk/funds/gpf/

For general queries about your pension plan please call 0844 556 0821. For queries about your current unit position and the value of your investment on switching out of the Fund, please see the schedule in the letter that accompanied this Update or call 0844 556 0821.

For details of the funds available to you for future investment please visit www.skandia.co.uk/funds

Please bear in mind that the value of investments may fall as well as rise, although units in the Fund have their value guaranteed at your Selected Guarantee Date.** Past performance is not necessarily a guide to the future.

*** Unless you have a trustee investment plan, the guarantee of £1 per unit will also apply on your death before your Selected Guarantee Date.*

www.skandia.co.uk

Calls may be monitored and recorded for training purposes and to avoid misunderstandings.

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guaranteed pension fund

switch form

As explained in the attached Update, please use this form if you would like to switch out of the Guaranteed Pension Fund with immediate effect (*please tick box A*) or in the future using the Special Switching Service to provide an encashment price of £1 per unit (*please tick box B*).

Name

Policy number

Please tick box A or box B as appropriate (✓)

Box A

I would like to switch out of the Guaranteed Pension Fund with immediate effect.

I understand that:

- At the first available opportunity after receipt of this completed form Skandia will switch all my units from the Guaranteed Pension Fund into the Skandia Life Deposit Fund.
- Skandia will notify me as soon as practically possible after such a switch has taken place so I can consider whether switching from the Deposit Fund to other funds may be more appropriate for my circumstances.
- In requesting this new fund choice I am giving up all the rights I have in relation to the Guaranteed Pension Fund including the £1 per unit guaranteed at my selected guarantee date or earlier death if relevant.
- This request overrides any previous request I may have made using the Special Switching Service.

Box B

I would like to switch out of the Guaranteed Pension Fund in the future using the Special Switching Service.

I understand that:

- At the first available opportunity after receipt of this completed form, providing I receive an encashment price of £1 per unit, Skandia will switch all my units from the Guaranteed Pension Fund into the Skandia Life Deposit Fund.
- Skandia will notify me as soon as practically possible after such a switch has taken place so I can consider whether switching from the Deposit Fund to other funds may be more appropriate for my circumstances.
- I can cancel this request at any time by writing to the address below.
- Skandia reserves the right to withdraw this Special Switching Service at any time and will provide at least four weeks' notice.

Signature

Date (dd/mm/yyyy)

When you have completed the details above, please return this form to:

Switches Department
Skandia
Skandia House
Portland Terrace
Southampton
SO14 7AY

www.skandia.co.uk

Calls may be monitored and recorded for training purposes and to avoid misunderstandings.

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