

Skandia Shield Fund – the Protected Share Price

The Skandia Shield Fund aims to produce growth from a diversified range of assets, spread across different geographic regions, together with a cash holding. An innovative feature of the Skandia Shield Fund is its price protection which provides investors with 80% protection of the Fund’s highest ever share price.

how is the price protected?

The Fund achieves price protection by investing in a derivative contract from Commerzbank AG. The derivative contract is in the form of a swap. Swaps are transactions between two parties with a legal commitment to an exchange of cash flows over a pre-specified period.

The Fund pays a regular premium and receives protection against the Fund price falling below 80% of the highest ever daily Net Asset Value (NAV). The swap can be cashed in or exercised by the Fund on any trading day.

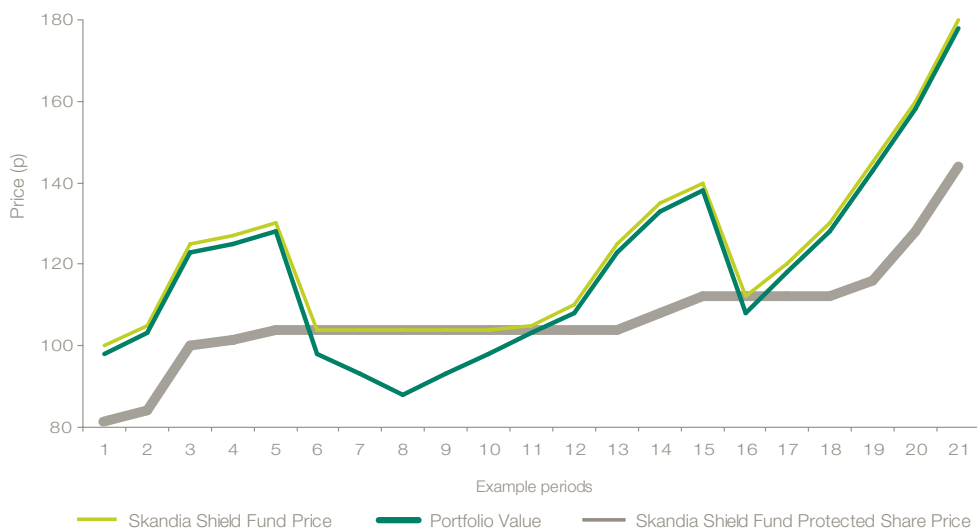
The swap means the Fund will receive the shortfall (if any) between 80% of the highest ever daily Fund NAV and the value of the portfolio asset and the cash or cash alternative. This means that, if shares in the Fund increase in value, 80% of that increase is ‘locked in’ for the benefit of investors.

For further information on the derivatives used within the Fund, please see the [Skandia Shield Fund – an innovative fund offering technical guide](#).

how does the Protected Share Price work?

The market price of shares in the Skandia Shield Fund at its launch was 100p, which gave it an initial Protected Share Price of 80p. As the value of the Fund grows, the Protected Share Price increases so that it is always 80% of the highest ever price.

The diagram below and illustration overleaf demonstrate how the Skandia Shield Fund Price and the Protected Share Price could be affected by variations in the value of the portfolio. This example is shown net of fees, charges and the regular protection premium, and is simply to demonstrate the importance of this feature.



This chart is for illustrative purposes only and does not show past or anticipated future performance

The illustration is calculated using an assumption that the leverage is 100% for Period 1, which is then increased to 125% for periods following a positive return and reduced to 75% for periods following a negative return. In all periods the return on the cash holding is assumed to be at the over night London Inter Bank Offered Rate (LIBOR) of 0.50% per annum.



the Protected Share Price in Practice

Period 1: The Fund is launched with a price of 100p and a Protected Share Price of 80p (80% of 100p). This means that the value of shares for anyone investing in the Fund will not be lower than 80p. The portfolio has a value of 98p and the protection value was 2p. Therefore the initial cost of protection is 2p plus a regular premium (expected to be around 1.2% of the Portfolio Value) which is paid from within the Fund.

Period 5: By this time, the Fund Price has grown to a peak of 130p, so the Protected Share Price has ratcheted upwards to reach the new value of 104p (80% of 130p).

Period 8: Although the Portfolio's Value has fallen to 88p, the Protected Share Price still remains at its previous level of 104p, (80% of its highest ever level). At this point the Fund's Price is made up of a Portfolio Value of 88p and a share price protection value of 16p*.

Period 15: As the market recovers the Fund Price rises to 140p and the portfolio protection price increases to 112p (80% of 140p).

Period 16: The Portfolio Value then falls to 108p but the Protected Share Price holds at 112p because the protection is now 4p*.

Period 21: The Fund Price has recovered to reach 180p and the Protected Share Price has risen to 144p (80% of 180p), thus 'locking in' a rise of 44p for those who invested in the Fund at its launch price of 100p.

It is important when recommending a fund with an element of protection like the Skandia Shield Fund that you are aware of the current Portfolio Value. In between periods 6 and 11 and during period 16 of the above example, investors wishing to receive a higher level of growth may not best achieve this goal through the Skandia Shield Fund until the Portfolio Value has increased above the Protected Share Price. At this time they would still have the benefit of the Protected Share Price, but would not see any investment growth until the Portfolio Value has caught up once again with the Fund Price.

The same Protected Share Price applies to all investors regardless of what the market price is when they buy into the Fund.

The daily Portfolio Value, as well as the Fund Price and the Protected Share Price, can be found on our website at <https://www.skandiais.co.uk/fundpricemanagers.asp>

* *In practice the value of the share price protection may exceed the difference between the Protected Share Price and the Portfolio Value. In which case, the Fund Price may also be higher.*

Please note that the premium payable for the protection is reflected in the share price. This means that in constantly rising markets, the Skandia Shield Fund may not perform as well as similarly priced funds that do not have the benefit of protection. If markets are falling, however, the extent of any potential loss to investors is limited by the Protected Share Price.

The upfront premium payable for the protection is not fixed and may fluctuate depending on prevailing market conditions. It is deemed as a cost, much like the cost of buying and selling shares in an equity fund and is not included in the TER.

www.skandia.co.uk

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