

Aiming high, playing safe

The Skandia Shield Fund –
protecting your investment



Please read this brochure carefully

The purpose of this brochure is to explain the features of the Skandia Shield Fund. Reading financial literature can be daunting, so we have tried to make this brochure as clear as possible and to explain any technical terms or unfamiliar concepts.

This brochure should be read in conjunction with the Key Investor Information Document (KIID) for the Fund, which is available from your financial adviser.

Contents

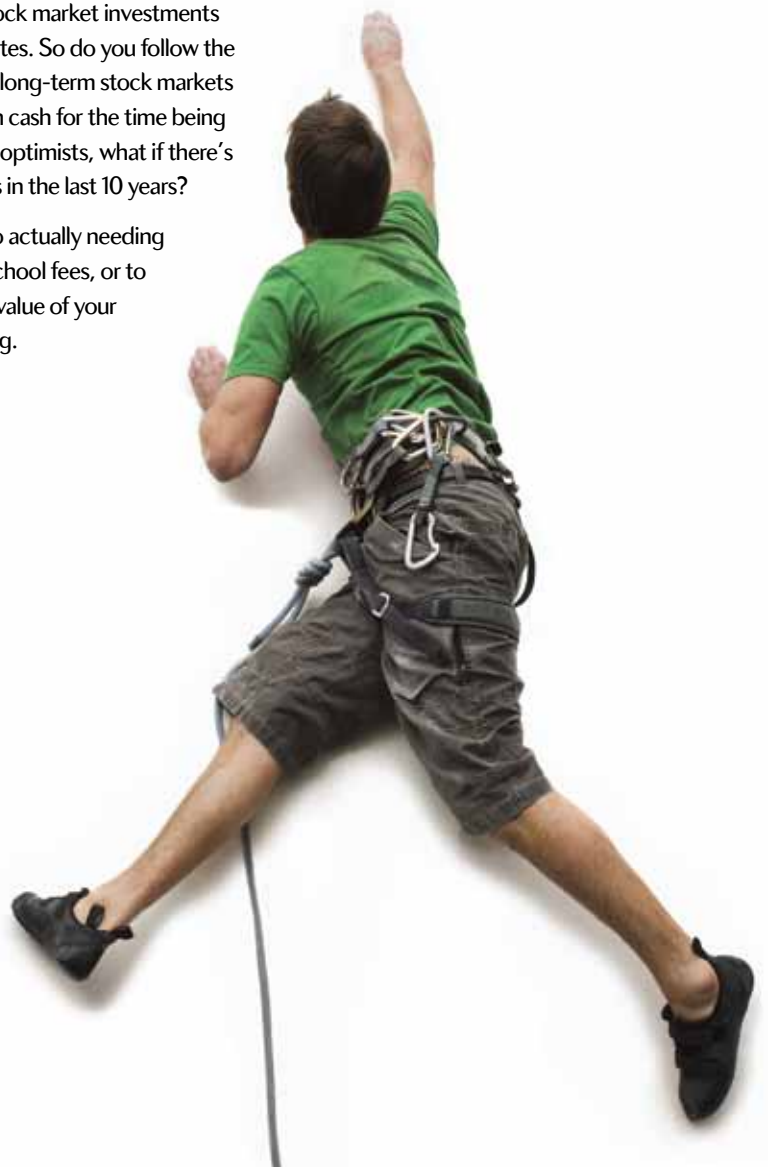
Decisions, decisions	3-4
Who are the organisations involved and what are their roles?	5-6
What are the aims of the Skandia Shield Fund and what does it invest in?	7-8
Is the Skandia Shield Fund right for you?	9-10
How is the Skandia Shield Fund managed?	11-12
How does the protected share price work?	13-14
How will my investment in the Skandia Shield Fund be taxed?	15
How secure is the Skandia Shield Fund?	16
How to invest in the Skandia Shield Fund	17-18

Decisions, decisions

When economies are booming and share prices are rising, the choice between investing on the stock market or keeping your money in the bank is a relatively easy one. But when things are less certain the choice is more difficult.

History shows that over long periods, the returns from stock market investments and bonds have always outperformed ordinary deposit rates. So do you follow the optimists who recommend investing now because in the long-term stock markets rise and your decision will be rewarded? Or do you stay in cash for the time being and possibly miss out on future growth? If you follow the optimists, what if there's a significant market decline as we have seen several times in the last 10 years?

This dilemma becomes even greater the closer you get to actually needing your money, whether for some special purpose such as school fees, or to supplement your income in retirement. A large fall in the value of your investment, just when you need it, could be heartbreaking.



'Insuring' your investment

Common sense tells us to protect the things we care about. For example, we insure our homes against unexpected events such as fires even though such catastrophic events may be very unlikely. So why not insure your investment? The Skandia Shield Fund allows you to do just that.

The Skandia Shield Fund is an investment with a difference. It enables you to take advantage of the opportunity for growth offered by the stock market – and to lock in that growth – whilst limiting the extent of any potential loss to 20% of your investment.

What's more, the way the Fund is managed means that it can generate growth whilst taking only limited risk, making significant falls even less likely.

Funds that provide this kind of insurance are called protected funds. While such funds are not a new idea, the Skandia Shield Fund uses an innovative approach. As well as offering you a greater opportunity to benefit from capital growth, it provides a minimum price for shares in the Fund, known as the 'protected share price'. This protects their value so that when you sell your shares the price you receive will be at least 80% of the highest price they have ever achieved.

What do we mean by protected?

'Protected' is not the same as 'guaranteed'. Research has shown that some people take them to mean the same thing, but the difference is important.

Whilst the Fund aims to protect at least 80% of your capital, you should be aware that this may not be achieved under all market conditions. The organisations that the Fund uses are financially strong, but in the unlikely event of any of them defaulting or becoming insolvent, you could lose some or all of your investment.

See page 19 'How secure is the Skandia Shield Fund?'

Who are the organisations involved and what are their roles?

Commerzbank AG, London Branch

Investment Manager

Commerzbank AG, the second largest bank in Germany and one of the world's leading financial institutions, developed the Skandia Shield Fund in partnership with Skandia Investment Group (see below). Commerzbank AG, London Branch acts as Investment Manager and it is their responsibility to manage the Fund in line with its objectives.

Currently, Commerzbank AG provides the contracts and agreements that the Fund uses to achieve its objectives.

Commerzbank AG performs a number of roles with respect to the Skandia Shield Fund. If a conflict of interest should ever arise it will be addressed by the Investment Manager. For further information please see the Full Prospectus.

Skandia MultiFUNDS Limited

Distributor

Skandia MultiFUNDS Limited is part of the Skandia UK Group. In its role as distributor for the Skandia Shield Fund, the company makes it available to retail investors through its investment platform, Skandia Investment Solutions and the Skandia Life Assurance Company product range.

Skandia Investment Group

Strategy sponsor

Skandia Investment Group (SIG), who developed the Skandia Shield Fund in partnership with Commerzbank AG, acts as strategy sponsor for the Skandia Shield Fund. This means that SIG determines the mix of assets from which the performance of the Fund is derived.


Skandia Investment Group has extensive experience of identifying which asset classes are likely to perform best and designing an investment strategy to reflect those views. SIG has funds under management of over £14.4 billion (as at 30 June 2011).



BNP Paribas

Independent custodian

The Fund's independent custodian is BNP Paribas Securities Services SA, Luxembourg, Europe's leading securities services provider. Ranking fifth worldwide by assets under custody, the company is a wholly-owned subsidiary of the BNP Paribas Group, a leader in global banking and financial services.

 For more information about the role of the independent custodian please see 'How secure is the Skandia Shield Fund' on page 19.

What are the aims of the Skandia Shield Fund and what does it invest in?

The Skandia Shield Fund aims to provide you with long-term capital growth equivalent to that achieved by a diversified portfolio of international investments, complemented by a cash holding. The Fund aims to protect the value of your shares, so that when you sell them the price you receive will be at least 80% of the highest price they have ever achieved since the Fund's launch.

When you invest in the Skandia Shield Fund, the value of your investment is based on the performance of a 'virtual portfolio'. This is made up of a basket of 16 different UK and international asset classes, and a cash holding.

The Fund price follows the performance of that portfolio, so that you can benefit from its growth without investing in it directly. If the portfolio increases in value, your shares will be worth more. If it declines in value, the opposite happens, but any fall in share price is limited to 20% by the protection offered by the Fund.

NOTE: Some of the assets in the virtual portfolio may not be valued in sterling, so exchange rate movements could cause their value to fall regardless of their performance. This means that the Fund's share price would fall accordingly.

The Skandia Shield Fund virtual portfolio

Basket of assets

Cash holding



Asset classes in the basket

UK Equities	UK Government Bonds
US Equities	US Government Bonds
EuroZone Equities	German Government Bonds
Japan Equities	US Liquid Investment Grade
Australia Equities	Corporate Bonds
China Equities	US Aggregate Investment
India Equities	Grade Bonds
Brazil Equities	US Liquid High Yield Bonds
Russian Equities	Emerging Market Bonds

'Equities' means shareholdings in companies.

For details of the minimum and maximum weightings please see the Simplified Prospectus.

What is the 'virtual portfolio'?

The virtual portfolio is a selection of stocks and shares, bonds and cash against whose combined performance the Skandia Shield Fund's share price is matched. The relative proportion of the assets within the portfolio is determined and adjusted like a conventional portfolio by the Skandia Investment Group team. The assets are 'bought' and 'sold' virtually, and the balance between cash and other assets is regularly adjusted – but without these transactions actually taking place.

In order for the Fund's share price to reflect the performance of the assets in the virtual portfolio, the Skandia Shield Fund has a contract with Commerzbank AG. As the value of the assets goes up or down, so does the value of the contract.

This agreement is known as a derivative contract, because its value is derived from something else. The organisations


involved in such contracts are known as the counterparties to the contract.

The value of the contract, instead of being based on the ownership of the portfolio assets themselves, is simply linked to (ie derived from) the performance of those assets – the Fund does not have to invest in them to benefit from their behaviour. The contract is a legal obligation to pay the value of the performance of those assets. This way of managing an investment is a cheap and efficient way of benefiting from any growth in specific assets, without having to hold the actual assets themselves.

In addition to the contract to match the portfolio's performance, the Fund also has a separate contract with Commerzbank to provide the protection element. (See next section: How does the Skandia Shield Fund lock in growth?)

The use of such contracts means that when you buy shares in the Shield Fund your money is not directly invested in stock market based assets.

You and your financial adviser therefore need to understand and be comfortable with the fact that a potential risk factor of the Skandia Shield Fund is the financial stability of the counterparty organisations with whom it holds such contracts.

 See page 19 'Creditworthiness'.

How does the Skandia Shield Fund lock in growth?

To provide protection for the Fund's share price, so that it will always be at least 80% of its highest ever price, the Fund has an agreement with Commerzbank AG that works like a form of insurance policy. It is designed to underpin the share price and prevent it falling below the 80% protected level.

This insurance-like feature means that every time shares in the Fund increase in value beyond their previous highest price, 80% of that increase is 'locked in'. The value of your investment cannot fall any lower than that locked-in level.

If the Skandia Shield Fund share price is higher than the protected price when you sell, you will of course receive the higher price. The buying price of the Skandia Shield Fund will never be lower than the protected price.

The Skandia Shield Fund pays regular premiums to Commerzbank AG for their agreement to provide the price protection benefit. Because this agreement is an asset of the Fund, the premium you pay for it is accounted for in the share price. The premium is around 1.2% of the value of the portfolio each year.

This means that when markets are rising, the share price of the Skandia Shield Fund may not rise as quickly as similarly low-priced funds that do not have the benefit of protection. However if markets are falling, the protection agreement will limit the extent of any potential fall in the value of your investment.

The Skandia Shield Fund should be viewed as a mid-to-long-term investment as with all funds. Unlike many other protected funds however, it doesn't have a fixed term. This means that your money isn't tied up for long periods of time. It can be bought and sold on any dealing day, so you will always be able to benefit from the protection.

Is the Skandia Shield Fund right for you?

The Skandia Shield Fund may be right for you if:

- » you wish to limit the risk to your capital
- » you are looking to add to your existing portfolio an investment that aims to limit losses resulting from market falls
- » you are looking for investment performance linked to global equity and bond markets
- » you are looking for a collective investment with daily pricing and trading, and no minimum or maximum investment period
- » you understand that in constantly rising markets, the premium paid by the Fund for the protection may result in the fund price not rising as quickly as a fund with the same asset mix and fund charges, but without the benefit of a Protected Share Price.
- » you are confident that you understand where your money is invested and how the Fund structure differs from that of ordinary funds without protection, as explained in this brochure
- » you are comfortable with the level of possible risk to your investment capital, as explained in this brochure and in the Fund's **Key Investor Information Document** which your financial adviser will provide.

The Skandia Shield Fund may not be right for you if:

- » you cannot risk any fall in the value of your invested capital
- » you are looking for an investment that pays a regular income
- » you are not looking for investment protection
- » you do not want to stabilise your investment
- » you cannot take the risk that your investment does not grow
- » by investing in it, you would leave yourself short of money to pay for unexpected emergencies.

Before you select any investment, you should discuss its suitability with your financial adviser.



How is the Skandia Shield Fund managed?

Managing risk

The aim of the Skandia Shield Fund is to provide long-term capital growth matching the performance of a virtual portfolio comprising a basket of assets.

The proportion of the different assets within the basket is known as its 'asset allocation.' Skandia Investment Group (SIG), in its role as strategy sponsor, reviews and regularly re-balances the asset allocation in order to maintain consistent performance as market conditions change. SIG has extensive experience of designing investment strategies to limit risk while optimising returns.

The balance between the cash holding and the basket of assets held within the virtual portfolio is also monitored daily and systematically adjusted depending on the volatility of the portfolio over the previous 50 working day period. In low volatility conditions, the portfolio will contain a greater proportion of shares and bonds than cash, and in high volatility conditions it will contain a greater proportion of cash than shares and bonds. This rebalancing method enables the Fund to react more quickly to market changes – cushioning any falls and putting it in a better position to benefit when the market rises.

Focusing on volatility

Volatility is a commonly used measure of risk. It is the extent to which the price of the basket of assets goes up or down from day to day.

Nobody minds big upward movements in price but the equivalent downward movements can be unnerving, particularly if they coincide with the need to withdraw capital from your investment. The greater the fluctuations in price ups and downs, the more likely you are to suffer the 'downs'.

Volatility is expressed as a percentage – the higher the percentage, the riskier the investment is.

The aim of the fund is to maintain a volatility level equivalent to a risk-rating of four out of ten on Skandia's risk scale, (ten being the highest risk).

By focusing on volatility, the Fund provides shelter from erratic market movements. Although this reduces the likelihood of potential losses, you should bear in mind that it can also mean that you may not benefit fully from any upward movement in markets. That is the trade-off for stabilising the balance of risk and returns.

An innovative feature of the Skandia Shield Fund is that, unlike many other protected funds, it relies on a separate contract to provide its protection element, rather than just cash. This means that when an upturn occurs, the Fund can benefit from market growth through the basket of assets.



Stabilising risk and returns

In times of higher volatility the proportion of the virtual portfolio's value represented by the basket of assets may be reduced below 100% and could even be reduced to 0%. This would have a positive effect on the Fund if stock markets were falling, because the portfolio would not be so vulnerable to market movements. If markets were rising however, and the basket of assets was less than 100% of the portfolio, this could act as a drag on the Fund's performance.

When volatility is low, it generally means that markets are rising. In such circumstances the Fund can 'borrow' up to an additional 50% of the value of the basket of assets and invest that virtual borrowing in further assets. This could bring the proportion of the portfolio held in the form of assets up to 150%.

Borrowing to enhance growth

'Borrowing' like this – also known as leveraging (see box below) – means that the Skandia Shield Fund will perform differently to a fund that does not do so. It enables the Fund to take advantage of additional growth opportunities. In a rising market it can benefit by up to one and a half times the performance of the basket of assets to which it is linked.

You should also be aware however, of the possible downside effect of 'borrowing'. If the value of the portfolio were to fall, it could multiply any loss by up to one and a half times. For example a 2% fall would be 3% if the portfolio had 'borrowed' up to the maximum of 50% of its value. Any fall in the Fund's value would however be limited by the protected share price.

The purpose of leveraging is to enhance the value of an investment by borrowing. It is what happens when you buy a house worth, say, £150,000, with £100,000 of your own money and a mortgage of £50,000. The mortgage increases your investment by one and a half times. So if the value of the house increases, you benefit by one and a half times the amount you invested.

As with a mortgage, there is a cost for borrowing, which is the interest payable on the loan. The cost of the Fund's 'borrowing' may therefore affect its performance.

How does the protected share price work?

When you buy shares in the Fund, you pay the Skandia Shield Fund price (lime green line, below), which will be either at or above its Protected Share Price (grey line), even when the value of the assets from which the portfolio's performance is derived (dark green line) is lower than the protected share price.

Example

This chart shows a range of possible variations in performance and their effect on the Fund's share price over an extended time frame. The 'example periods' are not specific amounts of time, and the chart is not intended to show actual past or anticipated future performance.



The illustration is calculated using an assumption that the Fund is not borrowing in Period 1. After periods in which returns are positive, the Fund borrows to increase the portfolio's basket of assets to 125%. After periods in which returns are negative the Fund reduces the basket to 75%. In all periods the return on the cash holding is assumed to be at the overnight London Inter Bank Offered Rate (LIBOR) of 0.50% per annum. LIBOR is the rate at which banks lend to each other.

The chart above and the commentary on the following page demonstrate how the Skandia Shield Fund price and the protected share price could be affected by variations in the value of the portfolio.

Details of the chart

- » **Period 1.** The Fund is launched with a price of 100p. This is made up of a portfolio value of 98p, and the initial cost of protection which is valued at 2p. Thereafter the cost of protection will take the form of a regular premium which is taken into account in the Fund price. The protected share price is 80p (80% of 100p). This means that the value of shares for anyone investing in the Fund at this price will never be lower than 80p.
- » **Period 5.** By this time, the Fund price has grown to a peak of 130p, so the protected share price has reached a 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 of 104p is made up of a portfolio value of 88p and a share price protection value of 16p*.

It is important to note that at this point, the portfolio value is below the protected share price. Anyone investing in these circumstances will need to bear in mind that the portfolio will need to rise by more than 16p or 18%, before it can generate additional growth above the protected price.

- » **Period 15.** As the market recovers, the Fund price rises to 140p and the protected share 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 value 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.

The protected share price applies whenever you invest

The protected share price applies to all investors, regardless of what they pay for their shares when they invest in the Skandia Shield Fund. This means there will be times when the Fund provides even more than 80% protection for new investors. You might for example, invest when the protected price is, say, 90% of the Fund price. In that case only 10% of your capital would be at risk.

Although the protected share price will limit any potential fall in value, you should be aware that when you sell your shares in the Fund they could be worth less than what you paid for them and up to 20% of your investment may be at risk. If markets were to fall by a significant amount, they might fail to recover for an extended period of time. In such circumstances the value of the portfolio may never reach or rise above the protected share price.

Other factors to consider include the positive or negative effect of interest rate movements on the performance of the fund, and the effect of inflation. Interest rates directly affect the return produced by the portion of the virtual portfolio that is invested in cash. When you sell your investment in the future, its future buying power could be less than you expect, depending on the rate of inflation experienced over the period.

For details of the portfolio value, the current and the protected share prices, please visit www.skandiais.co.uk/fundpricemanagers.asp or speak to your financial adviser.

How will my investment in the Fund be taxed?

The tax treatment for UK investors in the Skandia Shield Fund will differ depending upon the Skandia product it is held in, and your personal circumstances.

See page 21 for a list of Skandia products through which you can invest in the Skandia Shield Fund.

There is a potential liability for both capital gains and income tax and you should discuss your tax position with your financial adviser.

Skandia's interpretation of the law and HM Revenue & Customs practice relating to personal investors in non-UK domiciled funds is valid as at the date of producing this brochure. We believe this interpretation is correct, but cannot guarantee it. Tax relief and the tax treatment of investment funds may change.

What are the charges?

You do not pay fund charges as an actual monetary amount. Instead they are reflected in the changing price of your shares each day.

The fund charges are made up of:

- » the Annual Management Charge (AMC) of 0.80% of the portfolio value. (If the AMC is to increase in future we will notify you in writing.)
- » a charge, estimated at 0.10% a year of the portfolio value, to cover additional costs such as custodian, administration and audit fees.

Together these charges are known as the 'Total Expense Ratio' (TER).

The Skandia Shield Fund's TER is therefore an estimated 0.90% per year. This is significantly lower than the TER for many other protected funds.



How secure is the Skandia Shield Fund?

A key issue when considering the security of your investment in the Skandia Shield Fund is the creditworthiness of Commerzbank AG and the other firms that the Fund deals with.

Under the terms of the contractual agreements with Commerzbank AG, the bank is obliged to support the value of the Fund and the protected share price at all times. This is to ensure that, when you sell your shares, the price you receive will be at least 80% of the highest share price ever achieved.

Creditworthiness

The creditworthiness of organisations is rated by independent credit-rating agencies. They are used throughout the financial world to assess the risk that companies, and countries, may not be able to pay their debts.

Standard & Poor's (S&P), one of the investment industry's leading credit rating agencies, has 16 ratings starting at AAA and going down to C. Commerzbank AG is rated 'A' by S&P*. That rating applies to companies that are assessed by S&P as having a strong capacity to meet their financial obligations.

The organisation(s) chosen by the Fund to provide the cash holding or cash alternatives may vary during the life of the Fund, in order to ensure that they remain appropriate and fully able to meet their commitments to the fund.

In addition, assets within the Fund continue to be segregated and held separately from any of the other parties involved. Should any of them experience financial difficulties the fund assets are ring-fenced and protected. (See 'independent custodian' below).

You should be aware that, whilst the Skandia Shield Fund aims to protect your capital, it cannot guarantee that its objectives will be met in a worst case scenario. To take a very extreme example, if Commerzbank AG, the provider of the cash holding, and the Government supporting the assets held with the independent custodian were all to become bankrupt at the same time, you might lose some or all of your money.

In such unlikely circumstances you would not be covered by any investor compensation scheme, including the Financial Services Compensation Scheme. Skandia cannot be called upon to cover any shortfall in the event that Commerzbank AG is not able to meet its obligations and the assets placed with the independent custodian are insufficient to make up the shortfall.

All investments involve some risk. It is necessary to take some risk in order to benefit from the potential returns. Remember that past performance is no guide to the future and the value of investments can fall as well as rise.

* S&P rating as at 25/01/2012

How to invest in the Skandia Shield Fund

You can invest in the Skandia Shield Fund through Skandia's entire UK product range:

» On the Skandia Investment Solutions platform, you can hold your Shield Fund shares in the following products:

- ISA
- Collective Investment Account
- Collective Investment Bond
- Offshore Collective Investment Bond
- Collective Retirement Account

» You can also hold your Shield Fund shares in the following Skandia Life Assurance Company* products:

- Skandia investment bonds
- Skandia life plans
- Skandia pensions

**If you are investing through Skandia Life Assurance Company please read the document: Skandia Shield Fund – important information for Skandia Life investors.*

Dealing Days: Skandia is not able to accept instructions to carry out transactions on the Shield Fund on dealing days when the New York Stock Exchange (NYSE) is closed. If we receive an instruction to carry out a transaction when the NYSE is closed we will carry out the transaction on the next dealing day. Please refer to your Terms and Conditions for a definition of dealing days.

Important information for ISA investors

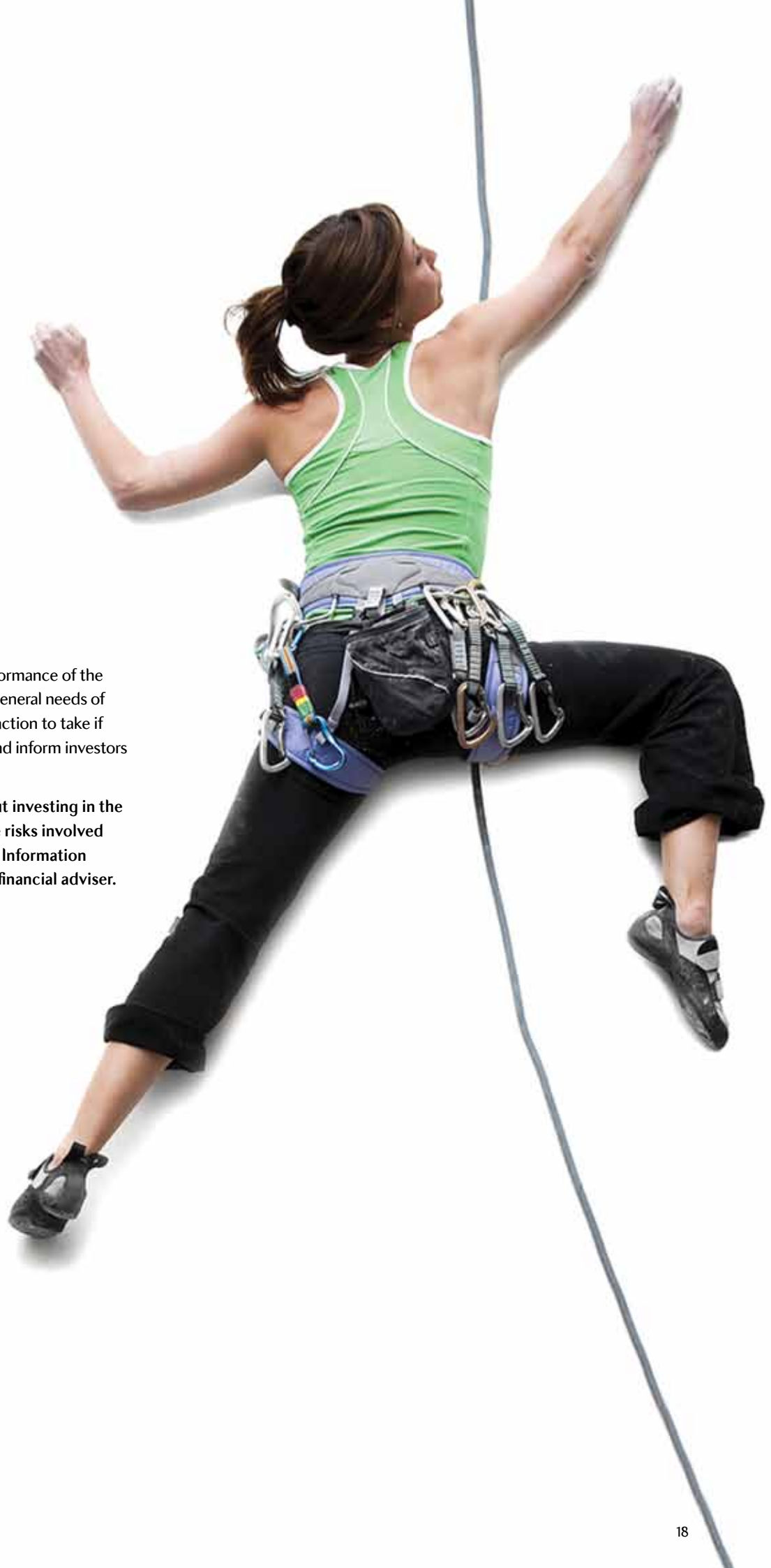
When you invest in the Skandia Shield Fund through an ISA, you should be aware that fluctuations in the share price could result in its eligibility for ISA investment being suspended.

Under HMRC rules this could happen if, at the time of your investment, the protected share price is equal to or greater than 95% of the daily share price.

In this situation, Skandia cannot accept any further lump sum ISA investments for the Shield Fund. We will place any regular direct debit payments intended for the Fund into cash deposit instead, in accordance with your ISA Terms and Conditions. We will tell you if this happens and also when we can start accepting new ISA investments into the Fund again.

Suspension of the Fund's ISA eligibility would not affect any existing Shield Fund investments already held within your ISA. They would remain fully invested, with all the associated ISA tax benefits.

Once the Fund's share price rises such that the protected share price is 95% or less of the Fund share price, the Fund will become eligible again for ISA Investment. We will then be able to accept new or top-up payments, either as lump sums or as regular payments. At that time, we can also invest into the Fund any direct debit payments that have built up in cash deposit, but you will have to instruct us to do so, since this will not happen automatically. We will tell you when we can start accepting new ISA investments into the Fund again.



Skandia will monitor the performance of the Fund to ensure it meets the general needs of investors and consider what action to take if there is a material variation and inform investors of such action.

For further information about investing in the Skandia Shield Fund and the risks involved please read the Key Investor Information Document or speak to your financial adviser.

www.skandia.co.uk

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

Skandia provides you with access to its investment platform, known as Skandia Investment Solutions. Within this platform you can open an ISA and Collective Investment Account provided by Skandia MultiFUNDS Limited and a Collective Retirement Account and Collective Investment Bond provided by Skandia MultiFUNDS Assurance Limited.

Skandia MultiFUNDS Limited and Skandia MultiFUNDS Assurance Limited are registered in England & Wales under numbers 1680071 and 4163431 respectively. Registered Office at Skandia House, Portland Terrace, Southampton SO14 7EJ, United Kingdom. Both companies are authorised and regulated by the Financial Services Authority. FSA register numbers 165359 and 207977 respectively.

VAT number 386 1301 59.

Old Mutual International (Guernsey) Limited is regulated by the Guernsey Financial Services Commission and is licensed to write long-term business under the Insurance Business (Bailiwick of Guernsey) Law 2002. Registered number 2424. Registered Office at Albert House, South Esplanade, St Peter Port, Guernsey GY1 1AW, Channel Islands.

Skandia Investment Group is a trading name of Skandia Investment Management Limited. Skandia Investment Management Limited is registered in England & Wales under number 4227837. Registered Office at Skandia House, Portland Terrace, Southampton SO14 7EJ, United Kingdom. Authorised and regulated by the Financial Services Authority with FSA register number 208543, VAT number 386 1301 59.

When printed by Skandia this item is produced on a mixed grade material, which uses a combination of recycled wood or paper fibre from controlled sources and virgin fibre sourced from well managed, sustainable forests.