

**SCOTTISH WIDOWS**

*official pensions and investment provider*



# Pension Investment Approach Guide

[More detailed information](#)



# Our commitment to you

We want to do everything we can to help you achieve what you need from your plan. Aiming for investment growth is vital, but we believe we have a commitment to you to:

- Make it easier for you to make your investment choice with confidence.
- Aim to ensure that the investment choice you make on day one remains equally relevant to the day you retire.
- Regularly test and re-test our understanding of investment risk and reward in light of market changes.
- Offer expert investment management at value for money prices.

## The Pension Investment Approach choices for your plan

To help you make a suitable investment choice for your plan, we offer three Pension Investment Approaches, each with a different combination of risk and reward:



Whichever one you choose, you can be sure that we'll manage the investment of your plan for you, with the aim that your plan always has a combination of investment risk and reward that both:

- matches your chosen Pension Investment Approach, and
- manages your investment to your selected retirement date.

As you get closer to retirement, we will gradually adjust and move your plan into lower risk investments. Although this reduces the growth potential of your plan, it also helps to protect the value of your plan as you near your selected retirement date, this is often called Lifestyle Switching.

By your selected retirement date, we will have automatically adjusted your plan so that it will be invested approximately:

- one quarter (25%) in our Cash Fund, and
- three quarters (75%) in our Pension Protector Fund.

If your circumstances change, you can alter your investment choice, helping you to ensure that your plan continues to meet your needs. Both the general and relevant risks associated with our funds can be found in the fund information section in the Pension Funds Investor's Guide. You can get a copy of this at [www.scottishwidows.co.uk/lpguide](http://www.scottishwidows.co.uk/lpguide)

# Investment risk and reward

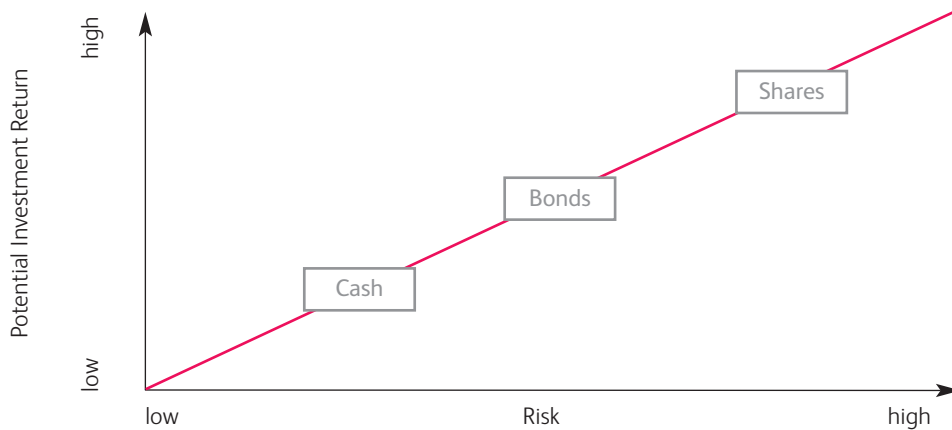
Generally, the greater the potential reward from an investment, the greater the risk that its value could fall.

So, choosing to invest your pension plan in assets with potentially higher returns, for example buying shares (also known as equities) through the stockmarket, could reward you with a high return, but could also lose a large part, or even all, of your investment.

Choosing to invest your pension plan in assets which have a very low risk, tends to give very low returns.

The diagram below gives an indication of the general risk and reward for different types of investments. Within each investment type, the level of risk can vary depending on the specific investment you choose to invest in.

Please remember that with unit-linked investments, there are no guarantees, and there is a risk that the value of your plan could go down as well as up, depending on investment performance (and currency exchange rates where a fund invests overseas).



## What investments do we use?

The same types of investments are used in all three Pension Investment Approaches, but in different proportions at different times. The tables below show how each approach will be invested at key landmarks in the term to retirement. The target asset allocations and actual percentage holdings within each approach may change.

### Adventurous

Highest risk ←————→ Lowest risk

Target Split of Investments Used				
Years to Retirement	Overseas Shares	UK Shares	Bonds	Cash
15 yrs+	50%	50%		
10 yrs	42.5%	42.5%	15%	
5 yrs	35%	35%	30%	
0 yrs+			75%	25%

### Balanced

Highest risk ←————→ Lowest risk

Target Split of Investments Used				
Years to Retirement	Overseas Shares	UK Shares	Bonds	Cash
15 yrs+	42.5%	42.5%	15%	
10 yrs	35%	35%	30%	
5 yrs	25%	25%	50%	
0 yrs+			75%	25%

### Cautious

Highest risk ←————→ Lowest risk

Target Split of Investments Used				
Years to Retirement	Overseas Shares	UK Shares	Bonds	Cash
15 yrs+	35%	35%	30%	
10 yrs	25%	25%	50%	
5 yrs	25%	25%	50%	
0 yrs+			75%	25%

## The reassurance of ongoing investment fund reviews

The findings from our most recent governance review were:

- The current asset allocations remain fit for purpose.
- We believe, at present, the asset classes included provide sufficient diversification benefits.
- The underlying funds continue to meet their aims and objectives, with an acceptable level of tracking difference.

## Will we ever use different investments?

Yes – if, as part of our investment fund review process, we think it would be of long term benefit to our group pension investors, we may decide in future to alter the asset classes or funds used by our Personal Investment Approaches.

## Are there any changes planned in the foreseeable future?

The Pension Investment Approaches invest using our range of Pension Portfolio funds. Our last review recommended some changes to the Pension Portfolio funds. The changes are described in detail in the paragraph below.

## What is changing?

We will be changing the bond components of our Pension Portfolio funds Two, Three and Four to be managed on a passive (index tracking) basis, in line with the current equity component of the funds. We anticipate this change will be made in the first half of 2012.

To do this we will be replacing the Scottish Widows Corporate Bond Fund with the SW SSgA Sterling Corporate Bond All Stocks Index Fund and the Scottish Widows Indexed Stock Fund with the SW SSgA Index Linked Gilts All Stocks Index Fund.

When we make this change all future payments, as well as the existing value of your plan, will be invested in the amended Pension Portfolio funds. More information on both the general and relevant risks associated with the underlying funds can be found in the information section in the Pension Funds Investor's Guide. You can get a copy of this at [www.scottishwidows.co.uk/lpguide](http://www.scottishwidows.co.uk/lpguide)



## The Nuts and Bolts

We don't actually invest directly in the investments shown e.g. in UK shares and corporate bonds. Instead we invest in funds from the Scottish Widows range that have the blends we need. These funds are grouped together under four Portfolios. Currently the Portfolios are as follows.

<b>Funds</b> <b>Asset classes</b>	<b>Scottish Widows Pension Portfolio One</b>	<b>Scottish Widows Pension Portfolio Two</b>	<b>Scottish Widows Pension Portfolio Three</b>	<b>Scottish Widows Pension Portfolio Four</b>
<b>Overseas Equities</b> SW SSgA 50:50 Global Equity Index Fund	50%	42.5%	35%	25%
<b>UK Equities</b> SW SSgA 50:50 Global Equity Index Fund	50%	42.5%	35%	25%
<b>Corporate Bonds</b> Scottish Widows Corporate Bond Fund*	–	15%	22.5%	37.5%
<b>Index-linked Bonds</b> Scottish Widows Indexed Stock Fund*	–	–	7.5%	12.5%

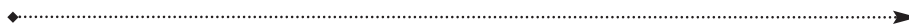
\*We anticipate these funds will be changing to SW SSgA funds in 2012.

In the last five years before you retire, we gradually start switching to lower risk investment funds – our Pension Protector and Cash funds.

When you choose one of our Pension Investment Approaches, the table below shows you which funds are used.

	<b>15 years+</b>	<b>at 10 years</b>	<b>at 5 years</b>	<b>at 0 years</b>	
<b>Adventurous</b>	Portfolio One	Portfolio Two	Portfolio Three	75% Pension Protector	25% Cash
<b>Balanced</b>	Portfolio Two	Portfolio Three	Portfolio Four	75% Pension Protector	25% Cash
<b>Cautious</b>	Portfolio Three	Portfolio Four	Portfolio Four	75% Pension Protector	25% Cash

### Term to retirement



We progressively switch your plan into lower risk funds as you approach retirement. By the time you reach your selected retirement date, approximately 75% of your pension fund will be invested in our Pension Protector Fund and 25% in our Cash Fund, in readiness for your retirement and tax free cash sum.

## Our pension portfolio and investment funds aims

Our pension portfolio and investment funds aim to achieve results that are suited to the Pension Investment Approach chosen.

**The fund risks associated with the underlying funds can be found in the fund information section in the Pension Funds Investor's Guide. You can get a copy of this at [www.scottishwidows.co.uk/lpguide](http://www.scottishwidows.co.uk/lpguide)**

Fund	Aim
<p><b>Scottish Widows Pension Portfolio One</b></p> <p><b>Current underlying fund:</b> SW SSgA 50:50 Global Equity Index Fund</p>	<p>The fund aims for long term growth by investing in UK and overseas equities. The equity exposure is currently gained through the SW SSgA 50:50 Global Equity Index Fund. We will periodically review the asset mix of the fund, and may introduce significant property investment in the future which will reduce the level of equity exposure, though the fund will continue to invest mainly in equities.</p>
<p><b>Scottish Widows Pension Portfolio Two</b></p> <p><b>Current underlying funds:</b> SW SSgA 50:50 Global Equity Index Fund Scottish Widows Corporate Bond Fund (We anticipate this will change in 2012)</p>	<p>The fund aims for long term growth by investing mainly in UK and overseas equities. It also has some exposure to bonds. These exposures are currently gained through the SW SSgA 50:50 Global Equity Index Fund and the Scottish Widows Corporate Bond Fund. We will periodically review the asset mix of the fund, and may introduce some property investment in the future which is likely to reduce the level of equity exposure, though the fund will continue to invest mainly in equities.</p>
<p><b>Scottish Widows Pension Portfolio Three</b></p> <p><b>Current underlying funds:</b> SW SSgA 50:50 Global Equity Index Fund Scottish Widows Corporate Bond Fund (We anticipate this will change in 2012) Scottish Widows Indexed Stock Fund (We anticipate this will change in 2012)</p>	<p>The fund aims for long term growth by investing mainly in a range of UK and overseas equities, but with a significant proportion in fixed interest securities and a small amount of index-linked securities. These exposures are currently gained through the SW SSgA 50:50 Global Equity Index Fund, Scottish Widows Corporate Bond Fund and Scottish Widows Indexed Stock Fund. We will periodically review the asset mix of the fund, and may introduce some property investment in the future which is likely to reduce the level of equity exposure.</p>
<p><b>Scottish Widows Pension Portfolio Four</b></p> <p><b>Current underlying funds:</b> SW SSgA 50:50 Global Equity Index Fund Scottish Widows Corporate Bond Fund (We anticipate this will change in 2012) Scottish Widows Indexed Stock Fund (We anticipate this will change in 2012)</p>	<p>The fund aims for long term growth by investing mainly in UK and overseas equities and fixed interest securities. It also has some exposure to index-linked securities. These exposures are currently gained through the SW SSgA 50:50 Global Equity Index Fund, Scottish Widows Corporate Bond Fund and Scottish Widows Indexed Stock Fund. We will periodically review the asset mix of the fund, and may introduce some property investment in the future which is likely to reduce the level of equity exposure.</p>
<p><b>Scottish Widows Pension Protector Fund</b></p>	<p>This fund may be suitable for investors approaching retirement who intend to purchase a conventional pension annuity. The fund invests mainly in long-dated UK fixed interest securities. The prices of these are one of the key factors affecting the cost of buying a pension and so any investment in the fund should rise and fall broadly in line with changes in the cost of buying such a pension in retirement. The fund does not provide any guarantee of the level of pension in retirement or the cost of buying that pension. It may not be effective for those who intend to buy an inflation-linked pension and does not provide protection against changes in the cost of buying a pension that arise from changes in life expectancy.</p>
<p><b>Scottish Widows Cash Fund</b></p>	<p>To provide long-term growth consistent with high levels of capital security by investing mainly in short-term securities.</p>

## What if you want to change investment choice?

You can currently change your investment choice for free at any time during the term of your plan, however this would override any Pension Investment Approach that you choose at the start.

## How much does your plan cost?

A total annual fund charge will be collected from your plan. Any personal illustrations take this charge into account.

## What next?

To help you identify which of our Pension Investment Approaches may suit you best, have a look at our Investment Decision Tool. You can find it at [www.scottishwidows.co.uk/idt](http://www.scottishwidows.co.uk/idt)

Alternatively you can choose from a wide range of investment funds. Please see the Pension Funds Investor's Guide for more detail.

When you join, simply indicate your preferred investment choice on the joining form provided.

We may change the selection of funds that we make available. Please be aware that the definitions and investment approach rating for specific funds may change in the future.



As part of the Lloyds Banking Group, Scottish Widows is proud to be an Official Provider of the London 2012 Olympic and Paralympic Games.

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