Your guide to how your funds are managed

This guide is designed for insured arrangements
Covering: The Group Stakeholder Pension Scheme

Your guide to how your funds are managed

The purpose of this guide is to explain:

- The key principles we follow when managing our funds
- The basics of investing
- How we value your pension investments
- How we work out the charges
- What happens if an unexpected event occurs.

We aim to use plain language that's easy to understand. To keep this guide simple, we've placed explanations of the most common investment terms (highlighted like this) in the terms explained section on **page 18**. You may find it helpful to browse through this now.

When we refer to 'us' or 'our' we mean Legal & General Assurance Society or LGAS for short. LGAS provides the funds available to your pension plan.

This document is intended to provide you with some additional information on how we manage our funds. You may want to keep it with your other documents as it may be useful to refer to it later. It's possible that our approach to managing our funds may change in the future. If we make any significant changes that may affect you we'll let you know as soon as we can.

1. Our key principles

When managing our funds and the investments we make on your behalf, we follow several key principles:

- We make sure your pension savings are invested into funds that are operated fairly and in the best interests of all investors.
- We make sure your pension savings are invested into funds that are simple to understand with clearly published aims, objectives and charges.
- We make sure your pension savings are invested into funds that are valued every working day using the most up to date information available to us.
- We make sure your pension savings are invested into funds that are allowed by the Financial Conduct Authority (FCA).
- We make sure your pension savings are invested into funds that provide an appropriate balance of risk and reward.
- We make sure your pension savings are invested into funds that provide value for your money.

Who is responsible for making sure we follow our principles?

- Our Fund Risk Oversight Committee (FROC) governs the management of our funds. It's made up of a number of our senior managers.
- The FROC meets regularly, and receives regular reports and information to assure them that our key principles are being followed. They also make sure our funds and policies are run in a way that is fair to all our members.

The FCA rules requires firms operating workplace personal pension schemes to establish and maintain an Independent Governance Committee (IGC). An IGC has been established within Legal & General for this purpose. The remit of the IGC is to act solely in the interests of relevant scheme members and to act independently of Legal & General. You can find out more about the IGC at **legalandgeneral.com/igc**.

The IGC has FCA mandated duties and powers to challenge Legal & General on value for money issues and has obligations to:

- Assess the on-going value for money of the Group Stakeholder
- Act solely in the interests of relevant scheme members
- Raise any concerns with the Legal & General board
- Escalate their concerns to the FCA, if necessary
- Report annually on what they have done.

2. The basics of investing

We know there's a lot to think about when it comes to investing your money into a pension. And it can all seem a bit daunting if you're new to investing or haven't had a pension before. With this in mind, we've produced this guide to help you understand the basics of investing, and will look at:

- The different types of funds you can choose and how they work
- The different types of fund management
- What your money could be invested in (called assets)
- The charges we'll make for managing your investments
- The balance between risk and reward
- What to think about when deciding how you want your pension savings to be invested.

What is a fund?

A fund is a type of collective investment in which lots of people invest their money together with the aim to deliver good returns for investors. This is sometimes referred to as pooling investments.

A fund manager chooses where your money is invested and makes sure the objectives of the fund are being met. The objectives of a fund will determine the type

of things the fund manager chooses to invest in. Different funds invest in different assets and this can have a big effect on how the fund performs.

There are four main asset types that funds invest in. These are company shares, property, bonds and cash. You can compare the different characteristics of each in the table on **page 6**.

It's worth remembering there are a number of factors that will affect a fund's performance, including where the assets are located, the type of commercial activities associated with the fund and the size of the market or sector in which the fund is invested.

To give you an example, a fund that invests in a diamond mine in Siberia has the potential for high returns. But, because of the risky nature of this type of business, there's also a much greater chance that you may lose some or all of your money. To learn more about the relationship between investment performance and investment risk see the balancing risk and reward section on **page 13**.

What happens when I invest in a fund?

Each fund is divided into units. When you invest in one of our funds, you buy units in that fund. The price of units will change as the value of the underlying assets purchased by the fund changes. If the unit price goes up, the value of your investment will increase. Similarly, if the unit price falls, so will the value of your investment.

What types of funds do we provide?

All of the funds provided by LGAS invest into the funds of another company in the Legal & General Group called Legal and General Assurance (Pensions Management) Limited referred to as PMC (for pensions management company).

When one insurance company (in this case LGAS) invests its assets with another (PMC), this is known as reinsurance. You can find out more about reinsurance on **page 11**.

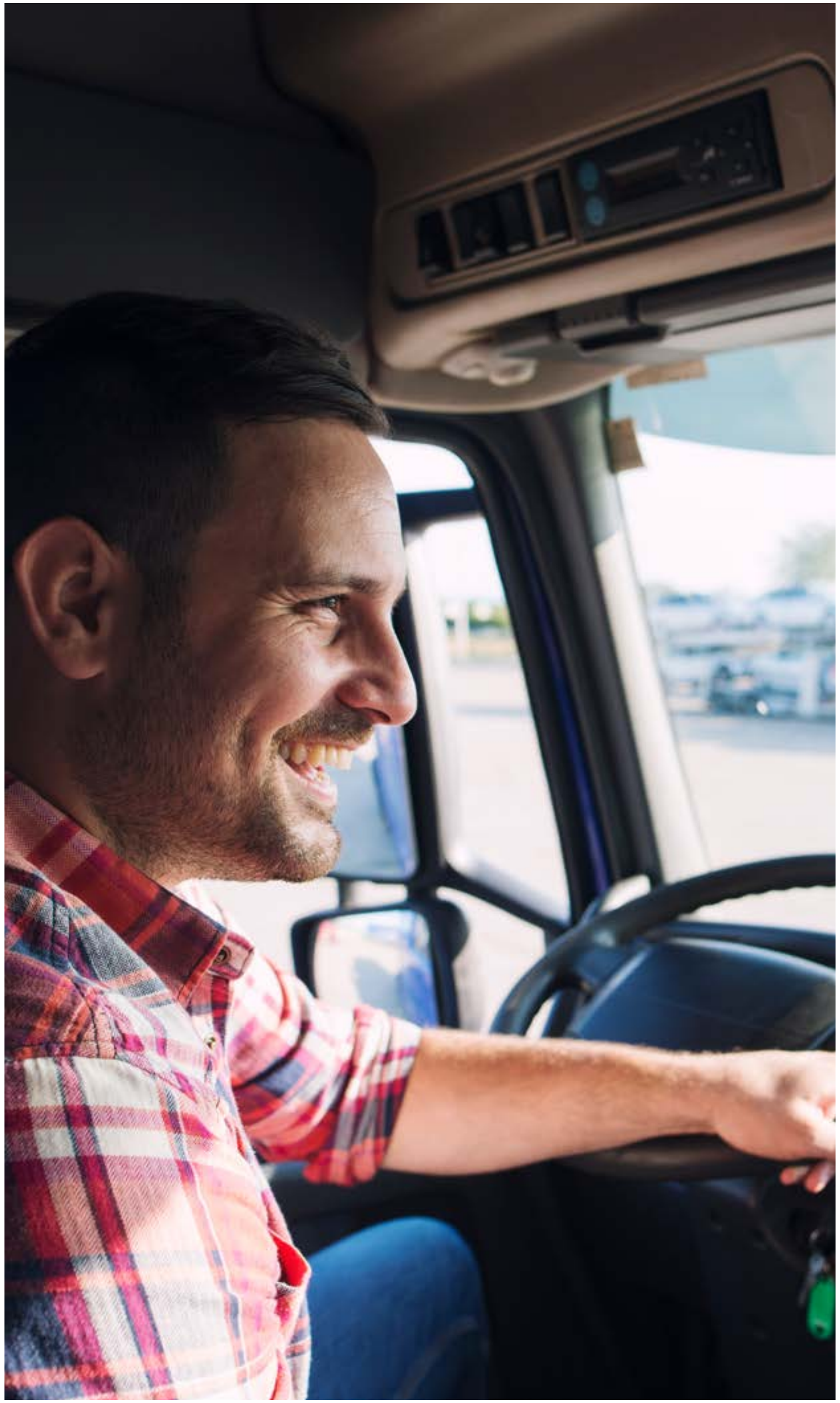
In turn, the PMC fund will be invested into assets that are managed internally by Legal & General or externally by another fund provider outside of the Legal & General Group.

- Internal funds – these are funds managed by Legal & General.
- External funds – these are funds managed by a company other than Legal & General. The fund manager will invest the assets in the fund either actively or passively:
- Active fund managers try to beat a certain market. Active funds have specific investment objectives and tend to specialise in a particular area – for instance certain geographic regions or sectors. They're likely to buy and sell assets more often than a passive fund manager in the hope of making investment returns that are better than the average for the market or sector they are in.
- Passive fund managers broadly track the performance of a particular market, for example the FTSE 100 Index. As a result, passively managed funds tend to have lower charges than funds that are actively managed.

Typically, an actively managed fund will invest in fewer assets than a passively managed fund. This means that the performance of each individual asset is likely to have a much bigger impact on the overall value of the fund, than if the fund was invested in lots of different assets.

It's also important to be aware that, even when they invest in similar assets, actively managed funds generally take on more risk than passive funds.

You can find out how your investments are protected on **page 11**.



What types of assets do we invest your money into?

Each fund will be invested in one or more different types of assets. These assets and the underlying holdings will change over time depending on the aims of the specific fund.

	Company shares	Property	Bonds	Cash
What is it?	A share in the value of a company. Also known as equities.	Commercial property such as offices, shops, warehouses, factories and other business buildings.	A loan which can be returned on a specified future date. Also known as fixed interest securities and gilts.	Short term deposits with governments and financial institutions such as banks
Who issues them?	Public listed companies	N/A	Governments or companies	N/A
Can they generate an income?	Yes. If the company makes a profit, it may return money to shareholders in the form of a dividend.	Yes. The rent paid by tenants effectively generates a regular income	Yes. The issuer will normally make regular interest payments to the holder	Yes. Although the rate of interest on cash deposits is normally quite low.
What is the potential for growth?	If the value of a company goes up, the value of each individual share will increase. Equally, if the value of a company goes down, the value of each individual share will decrease.	If the value of a property goes up, the value of your investment in that property will also increase. Equally, if the value of a property goes down, the value of your investment will decrease.	If a bond is sold for more than the original purchase price, the value of your investment could increase. However, if it is sold for less than the original purchase price, the value of your investment could decrease.	If the interest earned is retained your investment will go up in value. However, any growth is likely to be limited. If the interest earned is not retained your investment will not go up in value and, as a result of inflation, may be worth less in real terms

	Company shares	Property	Bonds	Cash
How volatile are they?	High. The price of a share can be very volatile. This means it can go down or up in value often and, sometimes, by large amounts compared to other less volatile investments. In return, they offer the potential for growth over the long term.	Moderate to High. Property prices can be very volatile. They can go down or up sharply in the short term and – in the case of a fall in price – may take a long time to recover. In return, they offer the potential for growth over the long term.	Moderate. Although they are sensitive to interest rate movements and inflation, bonds tend to be less volatile than investments in property or shares. As a result, they are more likely to provide modest investment returns compared to investments in property or shares.	Low. Cash is widely regarded as the least volatile investment asset. However, although it is less likely to go up and down in value, investment returns are likely to be low.
Can they fall in value?	Yes if the value of the company decreases, causing the value of each individual share to decrease	Yes but only if property prices fall, causing the value of your investment to fall	Yes although the value of your investment is only likely to fall if interest rates rise and could increase if interest rates fall	Yes, if interest earned fails to keep pace with the rate of inflation, the value of your money will fall in real terms, although any fall in value is likely to be limited.
How long should I hold onto this investment?	Medium to long term. Normally for at least 5 years.	Long term. Normally for more than 5 years.	Short to medium term. Normally for 3 to 5 years.	Short term. Normally 1 to 3 years.
Typical Bid/Offer Spread (You can find out more about bid/offer spread on **page 9**).	Large Companies: Around 0.80% Small Companies: Around 4.00%	Around 8.5%	Around 1.2%	Around 0.00%

3. Costs and charges

The costs and charges that you pay will depend on the type of pension you have, how you choose to invest, and any administrative requests you make.

What are the types of regular costs and charges for investing in our funds?

If you invest in one or more of our funds, you will pay two main types of regular costs and charges:

Basic Annual Management Charge (BAMC): This regular charge includes the day to day costs of managing the internal funds and the cost of running your pension. We work out the charge daily and take it once a month by selling units in the fund or funds you're invested in. The BAMC is a tiered annual management charge so the rate of charge reduces for larger retirement fund(s).

The actual rate of basic annual management charge applying to you will be in the information given to you by your employer before you joined and is also shown in the personalised Key Features sent to you when your plan was set up.

External Fund Annual Management Charge (EFAMC): If you have chosen to invest in a fund or funds which are not managed by Legal & General, then Legal & General may make an additional external fund(s) annual management charge in respect of your investment in such fund(s). The rate of this additional management charge is 0.15% per year on the value of these funds.

The government sets a maximum charge on stakeholder pension plans of 1.5% a year for 10 years followed by 1% a year thereafter. However, Legal & General does not currently charge more than 1% a year.

What are the types of irregular costs and charges for investing in our funds?

You may incur an irregular cost, known as a transaction cost, when buying or selling units in our funds (such as when paying in a regular contribution to your pension).

A transaction cost is incurred by the fund when the fund manager buys or sells underlying assets held by the fund (such as taxes and brokerage fees). When you make a request to buy, sell or switch between our funds, the fund manager also needs to buy or sell underlying assets that are linked to your units.

Transaction costs are taken by adjusting the unit price of the fund in which you are buying or selling units from.

The exact costs depend on a number of variable factors such as the funds you are buying or selling units within, market valuations, the type of underlying assets being traded, and the daily flow of money within the fund. Therefore we are unable to confirm the actual transaction costs associated with your pension plan in advance of the transactions taking place.

During periods of market volatility, the cost of buying and selling investments can increase significantly and this may result in an increase in transaction costs and other associated charges.

You can find out more about transaction costs in section 4 of this guide (valuing our funds) or by visiting **legalandgeneral.com/transactioncosts**

4. Valuing our funds

Each of our funds is divided into units. The number of units held within a fund is the total allocated to you and all other investors in the fund. The price of each unit is typically calculated by taking the total value of the underlying assets and dividing this by the total number of units held by all other investors in the fund.

How often do we value our funds?

We work out the value of our funds at 12 noon each working day, excluding English public holidays and Christmas Eve.

How do we calculate our fund values?

Our funds will normally be valued based upon the latest available unit price of the PMC fund in which they invest. In turn, the method by which the PMC fund is valued depends on whether it is an Internal or External fund.

- Internal funds: The valuation is based upon asset prices sourced from recognised exchanges, market indices or reputable third parties.
- External funds: The valuation is based upon the latest available information that the external fund provider has issued to us.

We round the published unit prices up by no greater than 0.09 pence. There may be exceptional market circumstances that change our general approach when calculating the value of our funds. Please refer to your Member's policy booklet for more information about the changes we can make.

What other factors do we consider when valuing our funds?

The basis for valuing our funds each day is typically influenced by the combined daily activity of all investors.

For internal funds, we will assess whether investors are generally buying or selling units and will apply the following pricing methods:

- Offer price: This method is applied when investors are generally buying units in the fund. It includes an estimate of the costs the fund will incur when the fund manager buys assets.
- Bid price: This method is applied when investors are generally selling units in the fund. It includes an estimate of the costs the fund will incur when the fund manager sells assets.

For external funds, the external fund provider will apply their own methods to cover the costs of buying or selling assets in their fund. The information they issue to us will include any adjustment that they have applied and we will use this information when valuing our funds.

What is a bid/ offer spread?

The difference between the offer price and the bid price is known as the bid / offer spread. The bid / offer spread will vary from fund to fund depending on the type of assets it invests in. We've provided some examples of the typical bid to offer costs for the four main types of assets in the table on **page 7**.

An example to illustrate this is also provided below.

Example

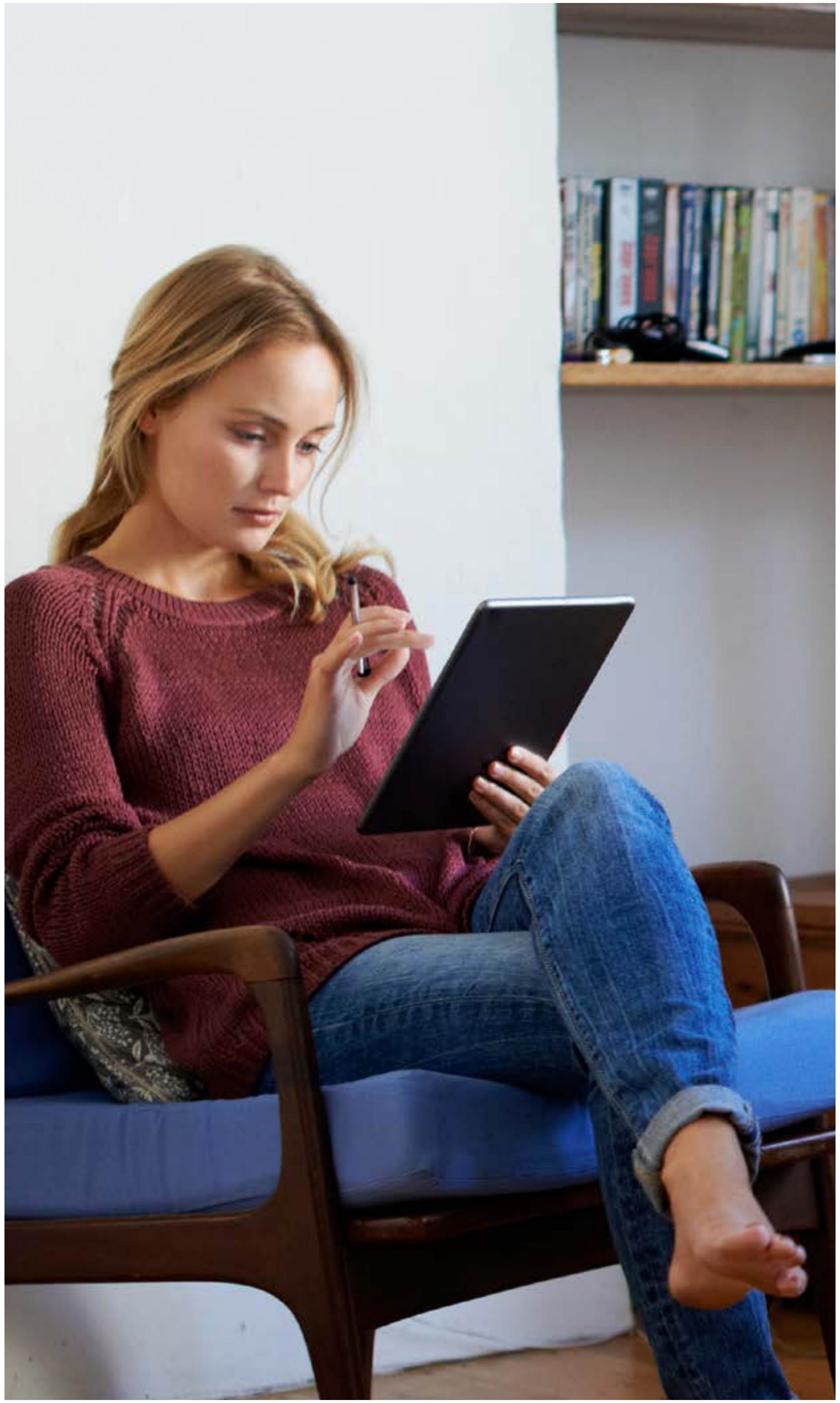
When exchanging your money for a holiday abroad into Euros, you'll receive a certain currency rate. Let's say the current exchange rate gives you 1 Euro for every £0.90. This is likened to the offer price. However, when you return with Euros to change back in pounds, the buy-back rate is usually lower you may only get £0.83 for every 1 Euro. This is likened to the bid price.

What happens if an error is made when valuing our funds?

We have tried and tested processes in place for working out unit prices and we run regular checks to make sure our prices are accurate. It is, however, a complex process and a mistake could occur. A mistake could result in either an incorrect payment to you or an incorrect number of units being added to your pension.

If you have either bought or sold units at an incorrect price then the correct unit price may be retrospectively applied to your arrangement by either adding or subtracting units in that fund.

It's worth noting that these mistakes are usually small and have little effect on the value of the fund. In the unlikely event that you've been adversely affected to a significant extent by a mistake made by us, we'll compensate you as soon as we reasonably can. We would generally consider a pricing error of more than 0.5% of the unit price to be significant.



5. Other events

How are your investments protected?

When one insurance company (in this case LGAS) invests its assets with another (PMC), this is known as reinsurance. This reinsurance arrangement has its own rules and impacts on your right to claim compensation in the event that LGAS, PMC or an external insurer enters insolvency.

- In the event that LGAS becomes insolvent or is otherwise unable to meet its financial obligations, you may be able to claim back any losses from the Financial Services Compensation Scheme (FSCS). The FSCS pays compensation to customers who lose money if a firm is unable to pay them what they owe. You can find out more at **fscs.org.uk**
- In the event that PMC becomes insolvent, LGAS will attempt to recover the full value of your investments. If it is unable to do so, LGAS will be responsible for making up any shortfall.
- In the event that an external insurer becomes insolvent, PMC will attempt to recover the full value of your investments held by the external insurer. If it is unable to do so, you may lose some or all of your pension savings. The protection described here relates only to insolvency or other circumstances in which the fund manager is unable to meet its financial obligations. Reductions in fund values through market movements or poor performance are not covered.

What if there is a special situation?

On occasions, unexpected and emergency situations arise that might need special action to be taken. These may include:

- A major incident that has a serious effect on investment values or results in the closure of parts of a city.
- The unplanned closure of one or more of the main stock markets around the world.
- Times when property investments are not easy to sell.
- Actions by overseas governments, which result in assets invested in the country concerned being frozen.
- A major systems failure, either ours or one of the external organisations which we rely on to value our funds.

In these situations, our main priority is to protect the interests of you and other investors. We'll take any action we believe necessary to achieve this. You can find full details of the actions we will take in your Member's policy booklet. You will have been sent a copy when you first joined but you can request a copy at any time.

Actions that might be considered include:

- Delaying dealing with cashing in requests, fund switches or other payments. We will still keep to any statements which we've made in your Member's policy booklet.
- Giving what we believe is a fair estimate of the value of the assets which are impossible to get an accurate value for.

What other changes can we make?

If we make a change to an internal fund or become aware of a change to an external fund which we consider fundamental, we will tell you. Where we can we will give you at least 30 days' notice.

A fundamental change may include the following:

- A significant change to the risk profile of the fund
- A significant change to the objective of the fund
- A significant change to the asset type held by and / or the method of managing the assets of the fund
- A significant change to the countries of the world in which the fund invests
- An increase in the fund management charge, except where the published allowance for additional expenses changes
- Failure of the external fund manager to meet its obligations.

We will give you details of the change, the options available to you and will explain what will happen if you don't respond. You will have the option to opt out of the change and make an alternative investment choice.

To be fair to you and other investors, we hold the right to change the way our funds are run. The extent and circumstances in which this right is applied can be found in your Member's policy booklet.

It's also reviewed and confirmed by the FROC regularly, or when particular circumstances demand immediate action.

6. Balancing risk and reward

Almost all investment involves some degree of risk. What's important is that you understand and are comfortable with the risks you're taking. For example, if you put your money in a bank account there's almost no risk, but the interest you'll get – your 'reward' – will probably be quite low.

On the other hand, investing your money in a single company's shares is high risk, as you're dependent on that one company. If something happens to the company, it will change the value of your shares and in the worst case, you could lose all your money. However, your reward is potentially much greater, as you could make a large gain.

Higher risk does mean the potential for higher rewards, but it also comes with a greater chance of the value of your money going down in value. On the other hand, a lower risk has a smaller chance of loss, but your money will normally grow less. You should make sure you understand and are prepared to take these risks before you choose what you invest in.

You can't get rid of risk completely, so it's important to manage it carefully.

Spreading your investment risk:

You can reduce risk by putting your money in different types of investment with varying levels of risk, for example, company shares, fixed interest securities, property and cash.

Pooling your investments:

When you invest just on your own, it's likely you'll only be able to make a small number of different investments. However, if you buy into funds that pool many investors' money, you'll be able to buy a share of a much wider range of investments.

The value of your investment will still go down if the market goes down, but it's likely that you will lose less if individual investments do not do well.

Pooled investment funds can invest in a wide range of investment types, for example:

- Fixed interest securities (such as corporate bonds, government bonds, or both
- Commercial property
- Company shares
- Cash or cash-like investments.

Wherever you choose to invest, putting your money in a range of investment types means that, if something happens to one of your investments, your overall loss may be reduced. Hopefully, your other investments will not have reduced in value or may have gained in value.

What are the different types of risk?

There are many different types of risk and it's important to make sure you know what could happen to your money. We've set out some of the main types of risks, and we will give you more information on each product or fund when you are making your choice where to invest.

There could be a risk to the following:

The amount you invest

- You may not get back as much as you put in
- Investments generally go down and up in value, some types more than others
- For example, share prices generally change daily
- If you take any money out, less is left to grow, so it may be less likely that you'll achieve your goals.

However, in most cases, you won't be able to take money out of your pension until you are at least aged 55.

Your investment goal(s) and income you hope to receive

- Your investment may not give you the lump sum or income you'd like or need in the future. You may need to invest more along the way, if it's off target. This is important if you need a particular amount of income from your investments or pension.

The value of your money through inflation

- The real value of the money you hold in a deposit account may reduce because of the effect of inflation. Similarly, the value of your investment may not keep up with inflation. So, inflation may reduce what you can buy with the value of your investment in the future.

Getting at your pension savings when you need them

- You may not be able to get your money as quickly as you need it. In most cases, you won't be able to take money out of your pension until you are at least aged 55.
- It isn't always possible to cash in investments instantly. For example, property may take a long time to sell
- You should consider current market conditions when withdrawing your pension savings. It is important to know that your pension could change in value between our receipt of your request to withdraw your savings and the contractual settlement date when we release the value of your pension. If you have other sources of finance, depending on what these are, there may be fewer long-term risks if you access those first.

The value of your pension isn't guaranteed

- The value of individual investments can go down and up every day.
- Investment markets sometimes experience catastrophic conditions where the value of all investment types goes down dramatically. It can take some time for markets to recover from these events.
- Investment types may generally fall or rise in value over longer periods due to economic conditions such as rising inflation or interest rates.
- It's not possible to know the future so you need to make sure you're comfortable with your investment decisions. If you're unsure we recommend you speak to a financial adviser.

As you approach at retirement, there is a risk that investment conditions may not be favourable at that time. This means you should think about moving your money to less risky areas in the years before you need it. If you choose to invest in a lifestyle profile, your investment will automatically switch between different funds with the aim of reducing investment risk as you approach your selected retirement date. In other words, each time an automated switch takes place, a proportion of your investment in one fund will be sold and your money from this sale will be used to buy units in another fund. As this switching process is automatic, you should be aware that you won't have any control over the timing of when you buy and sell your investments.

Your money and abnormal events

Making decisions about your pension based on short term circumstances - especially at a time of market volatility - can have significant long-term consequences for your financial wellbeing and retirement.

Markets can be unpredictable and there may be occasions when we see strong growth followed by the value of one or more investment types falling dramatically and not recovering. This could mean that fund risks become greater than indicated.

Before taking any major decisions about your pension, take the time to get independent guidance or advice..

The timing of a request to change investments

If you are thinking of switching investments, it is important to understand the time it can take to complete your instruction. When you make a request to move your pension savings from one fund to another we normally process your instruction using the unit prices calculated that working day. If your request is received after 12 noon, we will normally process your instruction using the unit prices calculated the following working day.

If an underlying fund manager isn't dealing on that day, your transaction will be delayed until the next dealing date available to all underlying fund managers. You won't be able to make any other changes during this time.

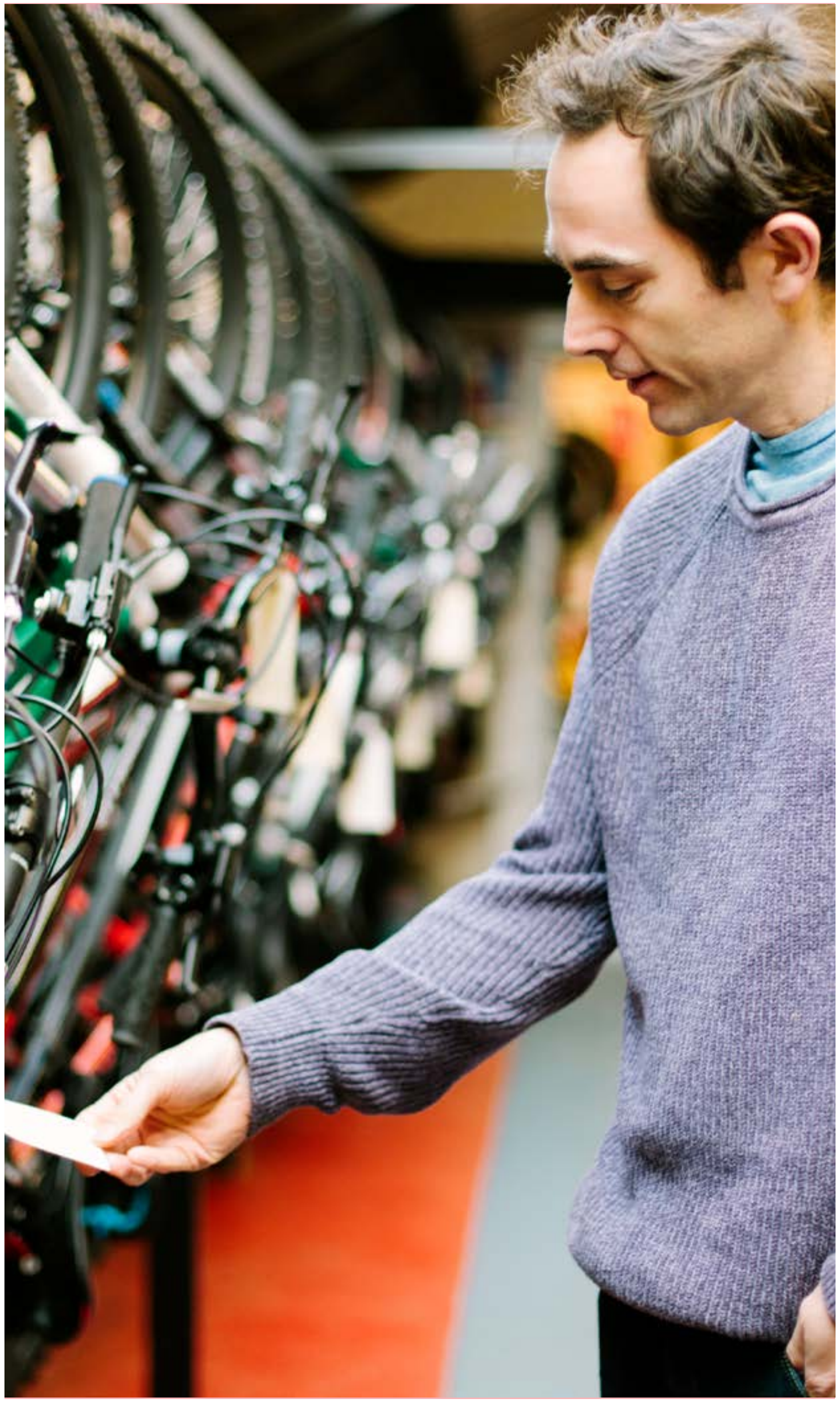
A fund's unit price can change on a daily basis. The amount shown when you request a switch is not guaranteed and the unit price(s) at the time of dealing will be different. In periods of market uncertainty this can lead to fluctuations in the value of your savings. If you're planning to switch into lower risk investments, such as money market instruments, you may crystallise current losses and might lose the opportunity to recoup those losses in the future.

The specific features of the fund you have chosen

When you buy a product from Legal & General, you'll have a choice of funds you can put your money in. We'll explain the risks associated with each fund in the fund factsheets which you can look at before you invest.

The funds you choose have risks linked to what they invest in; for example, a fund might invest in currencies other than British pounds. This means that the fund manager will need to change your money into other currencies and back again when you want to cash in. If the other currencies go down or up in value, this will affect the amount you get back and might reduce any investment gain or increase any investment loss.

If you are invested in a lifestyle profile, you'll need to check the fund factsheets for each of the



funds that form part of that strategy to identify all the potential risks that your investment may be exposed to.

When you're deciding whether to invest and where, it's really important for you to understand your attitude to investment risk.

We believe there are four main factors that make up a person's attitude to risk:

- Whether you prefer certainty or like speculating with your money.
- How prepared you are to accept the ups and downs of investing – both in the short term and the long term.
- How much you can afford to lose.
- How you want to take your money and when.

Default investment option

When you are enrolled or join your employer's pension scheme, your money will automatically be invested in the default investment option. This is the investment option chosen by your employer for members who haven't selected their own investments. The default investment option will start to switch your fund holdings to funds classed as safer or less volatile funds such as bonds, gilts and cash at least 5 years from the selected retirement date to maintain the value of your pension .

The default investment option is considered appropriate for most people, but it may not reflect your personal circumstances or goals. So it's a good idea to look at the other investment choices and decide whether you want to move your money to a different option.

You should regularly check that you're invested in the right place, in line with your future plans. It's really important to do this more frequently as you get closer to accessing your pension savings. You can change your investment funds at any time by logging on to: **legalandgeneral.com/mya** or by calling us. We don't charge for changing your investment funds, but this may change in the future.

If you're still unsure about your options we recommend you speak to a financial adviser. To find a financial adviser in your local area go to: **unbiased.co.uk**. Please note, financial advisers will usually charge for their services.

7. Additional information

Where can you find out more?

Your member's policy booklet and regular pension benefit statements provide specific information about your pension. You will also have access to a Key Features document and fund information on your plan microsite.

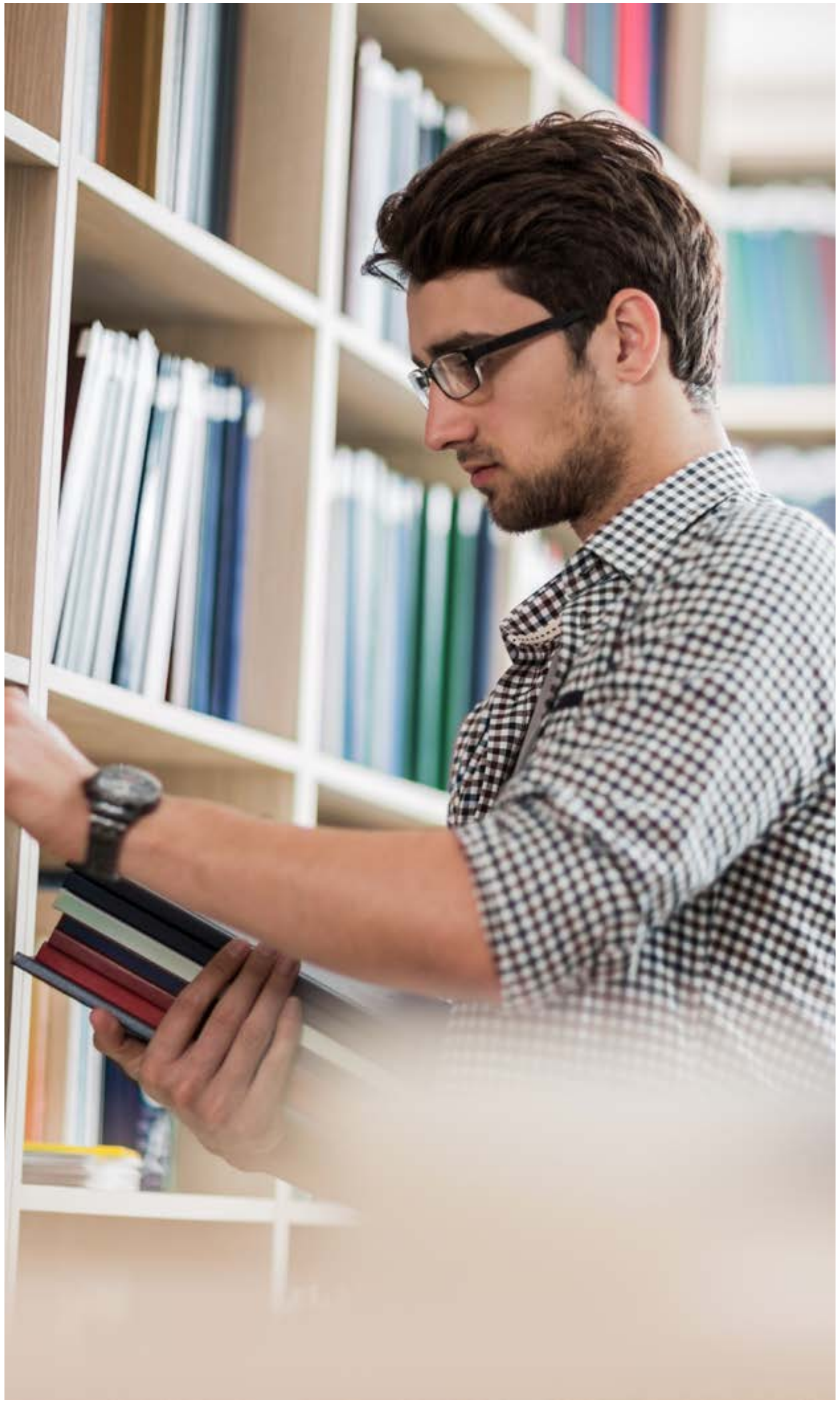
If you have a financial adviser they should also be able to provide you with further information on unit-linked funds.

We hope you find this document useful. If you have any more questions you can:

Check the progress of your pension savings any time by logging into Manage Your Account at **legalandgeneral.com/mya**

Email us at:
employerdedicatedteam@landg.com

Or write to us at:
Workplace DC Pensions
Legal & General
Brunel House
2 Fitzalan Road
Cardiff
CF24 0EB



Terms explained

An explanation of some common terms used in this guide.

Additional expenses
These are additional costs associated with running a fund and may include legal fees, audit fees, custody fees and other operating costs incurred in managing a fund.

Asset or assets
The investments that make up a fund. The main asset classes are shares, bonds, property and cash.

Bond
An investment where an investor effectively loans money to a UK or overseas company, UK or overseas government. This asset generates income by paying a fixed amount of interest on the loan.

Dividend
Payment made to shareholders from a company's profit.

External funds
A fund managed by a company other than Legal & General.

Fund or funds
A collection of assets that you can invest in. These assets may be managed by us or other investment management companies.

Gilts
Essentially a loan issued by the UK Government. The Government pays regular interest on the loan and promises to pay back the original capital in full.

Members
Those who have a pension contract with us, invested in our life and/or pension funds.

Member's policy booklet
The terms and conditions of your contract with us. You will have been sent a copy when you first joined but you can request a copy at any time.

Shares or equities
A share in a company that allows the owner of those shares to participate in any financial success achieved by that company.

Transaction costs
These are costs that might be incurred by members when they transact on their funds.

Unit or units
A unit is a share of a fund. Each fund is split into a series of units. The number of units you hold is your share of the fund.

Unit price or prices
A price worked out each working day that is used to value units. A working day is Monday to Friday inclusive, excluding English public holidays

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