

LF Stakeholder Pension Scheme

Guide to investment risk and investment funds

Introduction

Risk is another word for uncertainty or unpredictability. Most investments carry an element of uncertainty or unpredictability as it can be difficult to know what your returns will be. As a general rule, the less risk your investment carries, the lower potential return you can expect to make; whereas the higher the risk, the greater the potential return. However, this higher potential carries the risk of greater fluctuations and potential losses. Risk exists whenever you invest your money; even keeping money in the bank or building society carries the risk of returns not keeping pace with inflation.

The LF Stakeholder Pension Scheme has three constituent funds for you to choose from which each invest in a single underlying fund (collective investment scheme) as follows:

Constituent Fund of the LF Stakeholder Pension Scheme	Underlying collective investment scheme
LF Tracker Pension Fund	L&G (N) Tracker Trust
LF Corporate Bond Pension Fund	Legal & General Sterling Income Fund
LF Money Market Pension Fund	Henderson Money Market Unit Trust

Your attitude to risk

When deciding which type of investment to choose, it is important to consider your own attitude to risk. When considering risk there are different ways to think about it. These are:

- Your financial capacity to deal with potential loss
- Your investment time frame
- Your willingness to take risk.

If you are uncertain about your own risk profile or the level of risk associated with the LF Stakeholder Pension Scheme, you should speak to a financial adviser. A financial adviser can help you determine your attitude to investment risk and work with you to develop a retirement strategy that is right for you.

General risks

The main types of risk associated with the LF Stakeholder Pension Scheme are:

The value of your investment could be affected by the impact of charges; this is known as **Charges Risk**. As your pension savings are invested in a fund they will be impacted by fund manager charges for the management of your investment. As a result the value of your savings may decrease over time.

The value of your investment could be reduced by the impact of inflation; this is known as **Inflation Risk**. Inflation eats away at the value of your money. Your fund value doesn't decrease, but you lose buying power, as inflation decreases its potential purchasing power. In other words, the amount that you can purchase with each pound in your pocket slowly erodes over time. Investments funds such as the LF Stakeholder Pension Scheme expose you to that risk.

The risk that the value of your investments will fall instead of rise due to price fluctuations; this is known as **Market Risk**, and will depend on the type of investment asset that the constituent fund holds and will vary according to the **Fund Specific Risks** of each of the underlying collective investment schemes as shown below and overleaf.

Fund specific risks

The varying nature of the investment objectives and policies of the underlying funds means that some funds have risks that do not affect others. These risks are described further:

LF Tracker Pension Fund

The LF Tracker Pension Fund is invested in the L&G (N) Tracker Trust where investment management is provided by Legal & General Investment Management Limited.

L&G (N) TRACKER TRUST

Investment objective and policy: L&G (N) Tracker Trust aims for long-term capital growth by tracking the capital performance of the UK equity market, as represented by the FTSE All-Share Index (the Index), by investment in a representative sample of company shares. Securities in the Index will be held with weightings generally proportionate to their company's market capitalisation. From time to time non index constituents may be held as a result of a corporate action and these holdings will be sold or transferred as soon as reasonably practical. The Index provider reviews the Index composition quarterly in March, June, September and December, with the objective of reflecting changes in the underlying equity markets in a timely manner.

Further information regarding the L&G (N) Tracker Trust can be found in its Prospectus. A copy of this is available on request from the L&G Contact Centre on 0370 050 0955.

- **Credit and liquidity risk** – credit risk is of suffering loss due to another party not meeting its financial obligations i.e. trade counterparties fail to meet their transaction commitments. Liquidity risk relates to the capacity to meet liabilities i.e. liability to unitholders for the cancellation of units.
- **Interest rate risk** – the risk of movements in the value of financial instruments as a result of fluctuations in interest rates.
- **Derivative risk** – arises from the use of futures contracts to gain material exposure with reduced dealing costs.

LF Money Market Pension Fund

The LF Money Market Pension Fund is invested in the Henderson Money Market Unit Trust, where investment management is provided by Henderson Investment Funds Limited.

HENDERSON MONEY MARKET UNIT TRUST

Investment objective: To achieve a high level of return consistent with a high degree of capital security.

Current investment policy: The Fund will invest principally in short term deposits and other money-market instruments.

Further information regarding the Henderson Money Market Unit Trust is detailed in its Prospectus, a copy of which is available from www.Henderson.com.

Interest rate risk – with funds investing in bonds there is a risk that interest rate fluctuations could affect the capital value of investments.

Credit risk – bond investments are also exposed to credit risk reflecting the ability of the borrower (i.e. bond issuer) to meet its obligations; this risk is usually higher with bonds classified as 'sub-investment grade'. This may produce a higher level of income but at a higher risk.

LF Corporate Bond Pension Fund

The LF Corporate Bond Pension Fund is invested in the Legal & General Sterling Income Fund where investment management is provided by Legal & General Investment Management Limited.

LEGAL & GENERAL STERLING INCOME FUND

Investment objective and policy: Legal & General Sterling Income Fund aims to produce a high level of income consistent with long-term preservation of capital in sterling terms. It is intended that the fund will predominantly invest in interest bearing securities issued by governments, other public issuers and companies worldwide.

Further information regarding the Legal & General Sterling Income Fund can be found in its Prospectus. A copy of this is available on request from the L&G Investment Contact Centre on 0370 050 0955.

Credit and liquidity risk – credit risk is of suffering loss due to another party not meeting its financial obligations i.e. trade counterparties fail to meet their transaction commitments or borrowers fail to meet their redemption commitments. Liquidity risk relates to the capacity to meet liabilities i.e. liability to unitholders for the cancellation of units.

Foreign currency risk – the risk is the movement in value of overseas financial instruments based on fluctuations in exchange rate; managed by the utilisation of forward currency contracts as necessary.

Interest rate risk – the risk of movements in the value of financial instruments as a result of fluctuations in interest rates.

Derivative risk – arises from the use of futures – used to hedge market exposure from cash flows to ensure asset allocation views can be maintained without adjusting underlying holdings too frequently and Credit Default Swaps (CDS) – used to hedge the portfolio's credit default risk exposure and for changing the overall credit worthiness of the fund's bond portfolio.

How do LFS manage risk?

Link Fund Solutions Limited (LFS) manages a range of core pension funds designed to meet different investment needs. All the funds we invest in are subject to due diligence assessments prior to investment and periodically after that.

Product risk information can be found in the LF Stakeholder Pension Scheme Key Features document. This document does not constitute the provision of financial, investment or other professional advice in any way.

If you are unsure about the suitability of your investment, you should speak to a financial adviser. You may need to pay to do this.