

O2 Pensions UBS update – making informed choices on your pensions investments

What's the issue?

For members of certain O2 pension saving arrangements, one of the providers has had adverse performance in its investments. This document summarises the situation to help members make informed decisions about their investments.

If after reading this document you have any queries, please call talk2hr on 0800 731 2638 (or +44 1908 356666 if dialling from overseas). Alternatively email O2adminteam.hrservices@accenture.com.

Why have some people received a letter about UBS investments?

Some members have received a letter because their Defined Contribution (DC) and/or AVC assets were invested in UBS, one of the Plan's investment managers, as at 30 April 2008.

The O2 Pension Trustee has recently replaced UBS as the manager of its global equity assets for the defined benefit (final salary section) of the plan, due to a sustained period of poor performance.

The Trustee wishes to highlight this to members and offer them the opportunity to do the same (come out of UBS funds), and so has written to relevant members about a potential transfer into L&G funds.

If a member is **not** investing with UBS, they will **not** have received a letter.

How can I find out which funds I am currently invested in?

If you are a current member, you should check your monthly pensions statement available from the rewards website (www.o2rewards.com). For those who have left O2, please refer to your annual statement or contact the pensions team at o2adminteam.hrservices@accenture.com.

I am investing with UBS. Why have I not received a letter?

Letters were targeted to those with UBS funds as at end April 2008. If you have invested in UBS recently, then you may wish to take action.

What if I want to make a switch and I have not received a letter?

You need to complete a Switching Investment form:

For **Section 1 active members** go to Section 1>Plan Basics>Forms>Switching Investments Form. Ignore the fact that it says that this form is "for deferred members only" – it is the right one! Ignore the first section of the form (entitled Your future investments) and complete the section entitled Your Past Investments. This will instruct us to disinvest all the contributions you have paid so far and reinvest in the choice that you make. If you also want to change where future contributions are invested you can do this via www.o2rewards.com.

For **section 1 deferred members** go to Section 1>Plan Basics>Forms>Switching Investments Form. Ignore the first section of the form (entitled Your future investments) and complete the section entitled Your Past Investments. This will instruct us to disinvest your entire fund and reinvest in the choice that you make.

For **current Section 2/3 AVC contributors** go to Section 2 or 3 (as appropriate)>Plan Basics>Forms>AVC/Switch Investments Form. Ignore the fact

that it says that this form is "for deferred members only" – it is the right one! This will instruct us to disinvest all the contributions you have paid so far and reinvest in the choice that you make. If you also want to change where future AVC contributions are invested you can do this via www.o2rewards.com.

For **deferred section 2/3 AVC contributors** go to Section 2 or 3 (as appropriate) > Plan Basics > Forms > AVC/Switch Investments Form. This form will instruct us to disinvest your entire fund and reinvest in the choice that you make.

Please note any references to Hermes on these forms are out-of-date and actually refer to L&G.

What is the difference between UBS and L&G?

The investment performance of UBS has not been as good as other benchmark funds eg L&G.

See the appendix at the end of this document for further information. If you are section 1 go to Section 1 > Plan Basics > Investment Options. If you have AVCs in Sections 2 or 3 go to Section 2 or 3 (as appropriate) > Plan Basics > AVCs and follow the links at the bottom of the page.

Will the Trustee be appointing a replacement for UBS in the future?

In the short term UBS remains on the investment list, However, the Trustee is currently undergoing a review of the funds available to Section 1 members, and those members who have Section 2 or 3 AVCs. The Trustee will communicate the new investment options once they have been agreed and are available for investment

What if I don't want to switch?

You do not need to do anything

Active vs. Passive Management

APPENDIX

A passive investment style will involve the Fund Manager trying to "track" the performance of the Benchmark; such funds are commonly referred to as "tracker" funds. Typically, the Fund Manager would do this by holding stocks in roughly the same proportions as the index. This approach takes most of the risk out of performing significantly worse than a market. However, it does not remove the risk that the market itself will fall, or aim to beat the market even when the market falls.

An active investment style will involve the Fund Manager trying to "beat", ie perform better than, the Benchmark. The Fund Manager will attempt to do this by using his knowledge of companies to select stocks and shares that will do better than the market on average. An actively managed fund aims to give higher returns than a passive fund, but there is a risk of it giving lower returns. For this reason, the fees for active management are typically higher than for passive management, as the investment manager has to take decisions on where to invest.

Performance of UBS and L&G

We have shown the returns data net of management fees (i.e. the return you received after taking into account the amounts charged by L&G and UBS for managing your investment).

UK equities. The table below illustrates the difference between the investment returns of UBS's UK Equity Fund vs. L&G's UK Equity Fund and their benchmarks over the last 1, and 3 year periods.

	1 Year Return (%)			3 Year Return (% p.a.)		
	Fund	Bmk	Diff	Fund	Bmk	Diff
UBS UK Equity ¹	-13.7	-7.7	-6.0	4.7	9.5	-4.8
L&G UK Equity ¹	-7.8	-7.7	-0.1	9.4	9.5	-0.1

Source: L&G, UBS, net of management fees (net of fees performance estimated by KPMG)

¹ Benchmarked against the FTSE All Share Index

Global equities The table below illustrates the difference between the investment returns of UBS's Global Equity Fund ex UK vs. L&G's Global Equity Fund and their benchmarks over the last 1, and 3 year periods.

	1 Year Return (%)			3 Year Return (% p.a.)		
	Fund	Bmk	Diff	Fund	Bmk	Diff
UBS Global Equity Fund ex UK ¹	-7.7	-3.4	-4.3	4.8	8.5	-3.7
L&G Global Equity Fund ²	-5.0	-5.0	0.0	10.1	10.1	0.0

Source: L&G, UBS, net of management fees (net of fees performance estimated by KPMG)

¹ Benchmarked against the FTSE AW Developed World (ex UK) Index

² Benchmarked against the FTSE All Share Index (50%), FTSE World North America Index (17.5%), FTSE World Europe (ex UK) Index (17.5%), FTSE World Japan Index (8.75%), FTSE World Asia-Pacific (ex Japan) Index (6.25%)