

# PRE-RETIREMENT FUND

**Fund Size** **£371 million**

**Data to 31 March 2010**

## In a Nutshell

- Aims to capture bond market returns
- Offers some protection against changes in annuity prices
- Likely to be of specific interest to members nearing their pension date

## Glossary

**AAA, AA, A rated bonds** AAA-rated bond issuers are primarily government guaranteed, AA are typically non-AAA sovereign borrowers and financial institutions, A include many utility companies. The ratings are determined by independent credit rating companies

**Annuity** A pension which guarantees an income for life bought with the cash value of a pension account

**Benchmark** A measure of performance of a combined set of markets used for comparison purposes

**Bonds** Securities issued by governments or companies which pay a fixed rate of interest. UK Government Bonds are called gilts

**Credit markets** 'Fixed income', 'bonds' and 'credit' are typically used interchangeably to refer to financial markets where debt securities are traded. Unlike equities, when investors acquire a debt security, it represents a loan to the organisation behind it (i.e. government, corporation, etc)

**Index** A measure of performance of a market

**Index funds** Funds designed to perform broadly in line with a given market index

**Investment classes** Different types of investments, for example, equities, bonds or cash

**Investment horizon** The period over which you are looking to maintain your investment (such as until your pension date)

**Long-term** At least 15 years and longer

**Pension date** The date on which an individual starts to receive a pension

**Returns** In this case, the capital growth and the income derived from investing in a bond fund or stockmarket

**Risk** The possibility that an investment will lead to a gain or a loss - the higher the risk, the higher the anticipated rewards or potential losses, the lower the risk, the lower the anticipated rewards or potential losses

**Volatile** Subject to fluctuations in value, caused by rising and falling stock markets, interest rates and for overseas investments, exchange rate between currencies

## Why Legal & General Investment Management?

Legal & General Investment Management is one of the largest investment managers in the UK, with more than £315 billion\* under management and over 3,113\* company pension scheme clients. We offer a wide range of investment products designed to meet the needs of pension schemes and their members, all managed by dedicated fund management teams and supported by award winning client service.

## Investing for your Pension Date

The Pre-Retirement Fund aims to invest in assets that reflect the investments underlying a typical non-inflation-linked pension annuity product. There is no guarantee of full protection against investment driven changes to annuity prices but investing in a similar way to annuity providers offers some protection. You should be aware that annuity pricing reflects both investment conditions and changes in life expectancy (often called mortality). Investments in the Pre-Retirement Fund can only help to offset the risk arising from changes in investment conditions.

Annuity providers usually invest in bonds and therefore the cost of annuities are likely to move in the same direction as bond prices. When bond prices go up due to falling interest rates, the cost of buying an annuity should also increase. Since mid-September 2004, the Pre-Retirement Fund has invested in our Over 15 Year Gilt and AAA-AA-A Index Funds. The benchmark for this Fund will continue to be regularly reviewed.

Fixed interest bonds consist of gilts and corporate bonds and are normally the types of investment used to back non-inflation-linked annuities as the cash flows they generate are more stable and a better fit with those needed for annuities. Gilts have the additional security of being backed by the UK Government.

However, although bond prices are less volatile than equity prices their capital value is linked to interest rates and will fall when interest rates are rising and rise when interest rates fall. Corporate bonds also carry some additional investment risk due to the possibility of the issuer of the bond defaulting on the loan or by factors, such as corporate events and market perception.

Generally, reduced risk means a lower return and bond returns have historically been lower than equity returns over the long-term.

### As you near your pension date

However, as you near your pension date, you may want to reduce the volatility of the value of your pension account. You can do this by moving part or all of your pension account out of equities and into bonds.

You will also be thinking about buying an annuity and you may want to ensure that the value of your pension account starts to move in-line with the cost of buying an annuity. Annuity providers use bonds to back their annuities. Adopting the same investment approach as annuity providers, that is investing in bonds, will therefore provide some protection against changes in annuity prices as you get near to your pension date.

\*Data as at 31 December 2009.

This document should not be taken as an invitation to deal in Legal & General investments or any of the stated stock markets.

Legal & General Investment Management Limited provides Investment Management services to Legal & General Assurance (Pensions Management) Limited, the operating company for the Funds. Both companies are authorised and regulated by the Financial Services Authority.

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## PRE-RETIREMENT FUND

### PERFORMANCE

	FUND NET %	FUND GROSS %	BENCHMARK %
Mar 2009 - Mar 2010	16.3	16.5	16.5
Mar 2008 - Mar 2009	-1.7	-1.5	-2.1
Mar 2007 - Mar 2008	-3.1	-3.0	-3.2
Mar 2006 - Mar 2007	-1.0	-0.8	-0.9
Mar 2005 - Mar 2006	10.5	10.7	10.6

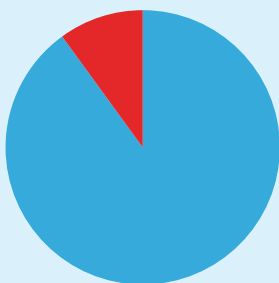
### Per annum to 31 March 2010

	FUND NET %	FUND GROSS %	BENCHMARK %
3 years	3.5	3.6	3.4
5 years	3.9	4.1	3.9

Past performance is not a guide to the future. Returns are calculated on the basis of closing middle-market prices. Fund Net returns are after the deduction of our standard investment management fees (please refer to your scheme's literature to determine the fee rate you are paying).

### FUND ASSET ALLOCATION

As at 31 March 2010



<span style="color: blue;">■</span> AAA-AA-A Corporate Bond - Over 15 Year Index Fund	89.9%
<span style="color: red;">■</span> Over 15 Year Gilt Index Fund	10.1%

The source of all information is LGIM unless otherwise stated.

### Market Highlights Over 12 Months to 31 March 2010

Financial markets have staged a remarkable comeback from the extreme lows reached in March 2009. At the centre of this turnaround has been a dramatic improvement in the investment environment. Through the past twelve months the developed world has emerged from the worst economic recession in more than seventy years. With the global economy in decline and the financial system left battered from the financial crisis, world leaders concentrated on formulating strategies to rebuild the banking sector and bring major economies back to growth. As a result, central banks and governments across the globe coordinated ways of stimulating their economies which resulted in official interest rates being reduced towards zero in major developed markets and the introduction of 'quantitative easing' (essentially creating new money) measures in America and the United Kingdom.

Corporate bond markets stole the limelight last year. After falling deeply out of favour during the financial crisis and global recession, corporate bonds produced an exceptional performance during the past calendar year as the economic environment and financial conditions began to improve. Just as the panic following the financial crisis affected a broad spectrum of corporate bonds (even bonds issued by highly rated, global companies, with ample liquidity, sold off sharply), the strong rebound during the past year was experienced across the board.

Economic data and news from the corporate sector have continued to be broadly reassuring during the first three months of 2010 and the global economic recovery remains appears 'on track', albeit at a subdued pace. However, a number of concerns have begun to appear towards the end of the reporting period. High government debt levels in much of the developed world have been brought into focus as a result of fears surrounding the ability of a number of Southern European economies (particularly Greece, Spain and Portugal) to service their ever expanding deficits. While the global economy has emerged from recession and growth rates are strong in the emerging economies, unemployment remains high in many developed nations. As policy makers begin to unwind their supportive measures, stock markets may need to begin to factor in a more subdued global economic climate.

### Important Information

Past performance is not a guide to the future and the value of investments can go down as well as up. Investors may not recoup the value of their original investment. The views expressed in this fact sheet are those of Legal & General Investment Management who may or may not have acted upon them. This document should not be taken as an invitation to deal in Legal & General investments or any of the stated stock markets. This document should not be taken as an invitation to deal in Legal & General investments or any of the stated stock markets.  
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