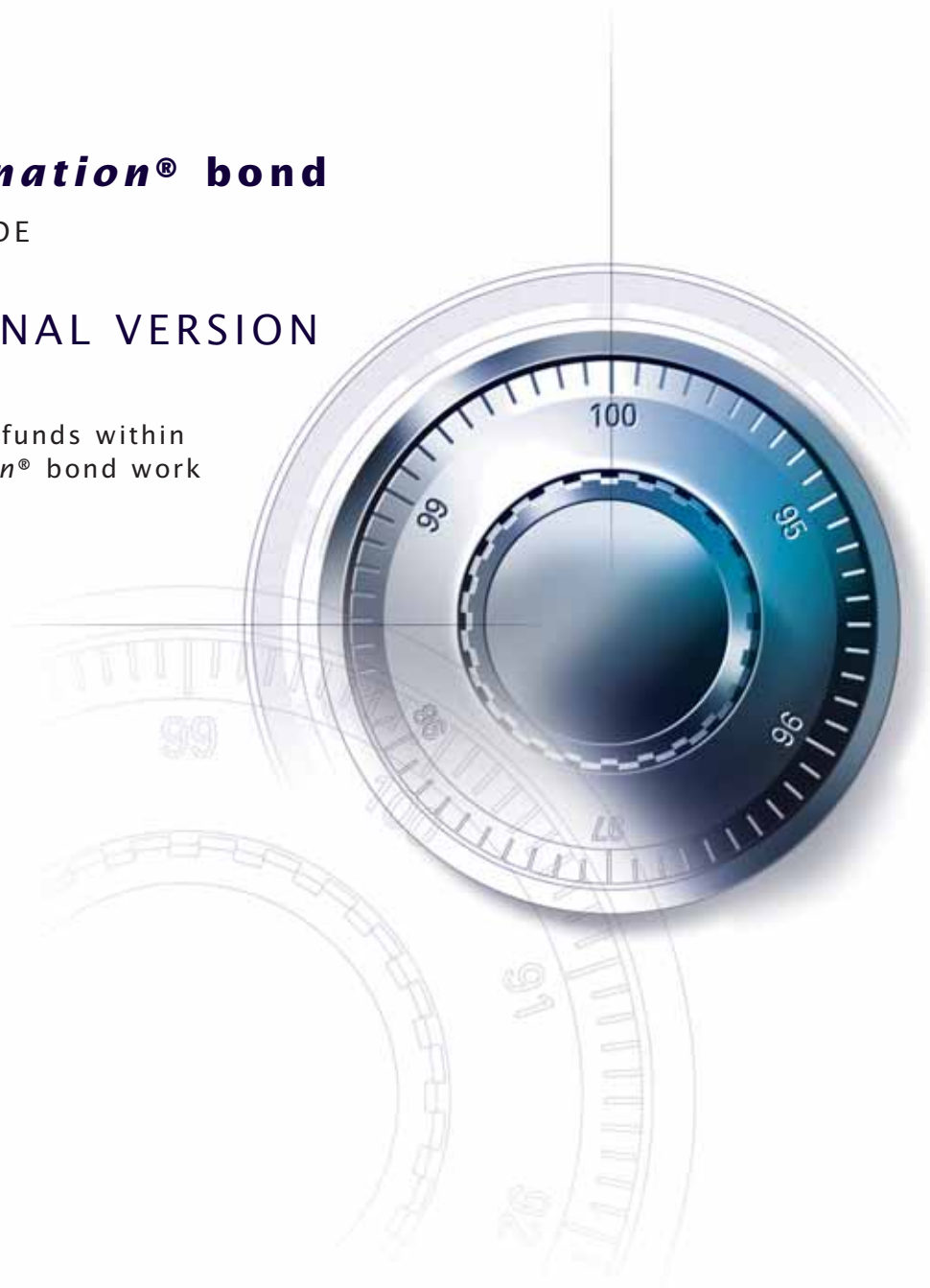


## ***safe combination*<sup>®</sup> bond**

INVESTMENT GUIDE

### INTERNATIONAL VERSION

A guide to how the funds within  
the *safe combination*<sup>®</sup> bond work



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# Introduction

As an investor in the *safe combination*<sup>®</sup> bond you will have access to a choice of funds linked to a diverse range of stock markets. Each fund has the choice of capital protection of between 100% and 95% each quarter and has its own way of providing growth.

You may select and change the composition of your portfolio each and every quarter. To assist with your fund selection, this guide provides an overview of how each fund works and examples of fund performance under various stock market conditions.

By investing via our *safe combination*<sup>®</sup> system, your choice is simplified and you can ensure that your bond is constantly managed in line with your wishes. You decide how much of your initial investment you want to protect and, therefore, the level of risk and reward you are comfortable with. The system will then look after your bond for you. If you want to take a more active role then you can invest directly into the funds without the *safe combination*<sup>®</sup> system. However, you should only do this if you fully understand the funds and are comfortable with the level of

risk attached to them. Certain funds can only be accessed through the *safe combination*<sup>®</sup> system due to the level of risk involved. More details are given later in this guide.

The protected amount you choose may be reduced by the deduction of charges. A full description of the bond's charges can be found in the key features document. This guide uses examples which do not take into account any product charges although they do include annual management charges as these come out of the funds.

**Investment growth and protection of the initial capital is provided by a range of highly rated, financially strong institutions and not by Scottish Life International. If any of these financial institutions with whom your money is invested were to default on their obligations, the protection and growth potential of your bond would be at risk and may have no value.**

**Scottish Life International has a conservative credit-assessment policy and our standard practice is to use only financially strong institutions with a minimum short-term credit rating of A-1 (Standard & Poor's) or P-1 (Moody's).**

# A world of investment choice



The range of protected funds from Scottish Life International covers most of the major world stock markets plus a technology-based index. Investors can link their *safe combination*<sup>®</sup> bond to these indices:

FTSE 100	UK
S&P 500	USA
Nikkei 225	Japan
EURO STOXX 50	Europe (countries whose currency is the euro)
Nasdaq-100	Technology (US-based)

Investors can create a portfolio based on any combination of these stock markets or can select from our two mixed fund models (below) which automatically spread their investment across a specified range of stock markets.

**Multi Index** – passively allocates the investment across Europe, Japan, the UK and the USA according to the size (also known as market capitalisation) of each stock market.

**Worldwide** – automatically invests 20% into each stock market (including technology) each quarter. This option is only available in the Protected With Bonus fund range.

## What types of protected fund can I invest in?

Once you have decided in which stock market you want to invest, you need to decide how you want to achieve growth. You can choose from the following range of capital protected funds:

**Protected Index funds;**  
**Protected Deposit Bonus funds;**  
**Protected With Bonus funds;**  
**Protected Cash Bonus fund.**

Each fund range provides growth potential through a bonus system and a choice of capital protection from 100% to 95% each quarter, with the exception of the Protected Cash Bonus fund which has a capital protection level of 100% only.

# Protected Index funds

## How do the Protected Index funds earn a bonus?

1. At the start of each quarter a profit rate is declared which determines the extent to which the funds will participate in any stock market growth.

The profit rate is different for each fund and changes from quarter to quarter. In general terms, profit rates are higher when interest rates are high and volatility\* low, although this is not always the case. The starting levels of each index are also declared at the start of the quarter.

2. At the end of the quarter, the profit rate is multiplied by any growth in the stock market index to calculate the bonus for the period. The closing level of the index used in these calculations is normally taken as the average value of the index over the final five days of the quarter.
3. This bonus is then added to the protected amount to form the starting value for the next quarter.

If the index falls or does not grow over the quarter, no bonus is added but the capital protected amount – between 95% and 100% – remains intact.

Please note that any bonus payment each quarter is applied to the protected amount and not the current fund value. This means that in the event of the stock market remaining flat over a quarter, investors in the Protected Index 95% funds will lose 5%. Should this happen over a number of months, investors could lose capital whilst the stock market remains flat or falls. At 100% capital protection the fund price will not fall. Please refer to the "Risk profile" section on page 6.

**Investors can only access the Protected Index funds with capital protection levels of 95%, 96% and 97% each quarter, through the *safe combination*<sup>®</sup> system.**

*\*Volatility is a measurement of the tendency for a stock market to rise or fall sharply within a period of time. For example, a highly volatile stock market means that prices have significant swings in very short periods of time, either up or down.*

# Worked examples with market growth

Consider an investor who has a fund value of £20,000 at the start of the quarter and has selected the Protected UK Index fund with 95% capital protection (only available through the *safe combination*<sup>®</sup> system). The FTSE 100 index stands at 5,000 at the start of the quarter and the profit rate for this fund for the quarter is 150%.

## Example 1 – very strong stock market growth

Let us say that the closing level of the FTSE 100 index is 6,000 – a rise of 20%. The fund value to be carried forward to the next quarter would be calculated as follows:

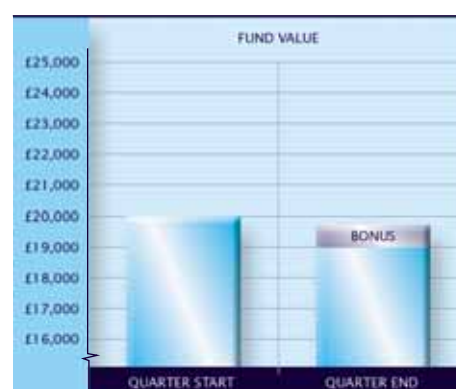


PROTECTED CAPITAL AMOUNT: 95% OF £20,000 = £19,000  
 BONUS: 150% OF 20% OF £19,000 = £5,700  
 NEW INVESTMENT VALUE: £19,000 + £5,700 = £24,700

This means that the Protected UK Index 95 fund has grown by more than the UK stock market. This is possible when the profit rate is well above 100% and the growth in the stock market is very strong. You should note that very strong stock market growth of this amount is a rare occurrence but this is included here to demonstrate the features of this fund range.

## Example 2 – low stock market growth

Let us say now, using the same criteria at the start of the quarter, that the closing level of the FTSE 100 index is 5,125 – a rise of 2.5%. The fund value to be carried forward to the next quarter would be calculated as follows:



PROTECTED CAPITAL AMOUNT: 95% OF £20,000 = £19,000.00  
 BONUS: 150% OF 2.5% OF £19,000 = £712.50  
 NEW INVESTMENT VALUE: £19,000 + £712.50 = £19,712.50

This means that the Protected UK Index 95 fund has fallen when the stock market has grown by a little. This is possible when the growth in the stock market over a quarter is only a few percent.

**NOTE:** If the index had fallen or not grown, the new fund value would be £19,000 - the protected amount, and so the investor would have lost £1,000, even when the stock market had not fallen.

*The profit rate used is for example only. Actual profit rates may be higher or lower than the one shown and change from quarter to quarter. Funds with higher protection levels have lower profit rates. The examples do not take into account any charges.*

*The figures used in these examples are for illustrative purposes only and are not guaranteed. You might get back more or less than this. The value of your investments can fall as well as rise. Please refer to the key features document for full details of the charges.*

### Risk profile (technical details)

Protected Index 100 funds are lower risk than Protected Index 95 funds. The Protected Index 100 funds are slightly higher risk (and consequently have a higher potential reward) than a cash fund, but do not represent a substantial increase in risk.

This is because a cash fund will normally increase each and every quarter, but the Protected Index 100 funds can, in the worst case scenario, fail to grow. With these funds all you are risking each quarter is lost interest.

The Protected Index 95 funds are clearly higher risk. They can fall by 5% when the stock market is flat over a quarter and can even fall when the

stock market grows by a little. However, to compensate for this risk these funds have higher profit rates. So if the stock market increases (or falls) dramatically, the Protected Index 95 funds can outperform the stock market.

You should note that whilst these funds provide 95% protection per quarter, it is possible in the event of the stock market falling or remaining flat for your capital to lose 5% each and every quarter. Investing via the *safe combination*<sup>®</sup> system provides you with the ability to avoid such losses.

Overall this means that the Protected Index 95 funds have a risk and reward profile which is similar to the stock market itself.

# Protected With Bonus funds



## How do the Protected With Bonus funds earn a bonus?

1. At the start of each quarter a bonus rate is declared which will be paid in the event of the stock market index to which the fund is linked, not falling over an investment quarter. The bonus rate is expressed as a percentage of the protected capital.

The bonus rate is different for each fund and will change from quarter to quarter. In general terms, bonus rates will be higher when interest rates are high and volatility high, although this is not always the case. The starting levels of each index are also declared at the start of the quarter.

2. At the end of the quarter, the bonus will be added to the protected capital provided the stock market has not fallen. The closing level of the index used in these calculations will normally be the value of the index on the last day of the quarter. If the stock market has fallen by less than 5% then a partial bonus will be payable. The closing level of the index used in these calculations will normally be the index level on the final day of the quarter.
3. This new value forms the starting value for the following quarter.

You should note that, unlike the Protected Index funds, in the event of the stock market remaining flat over a quarter, investors in the Protected With Bonus funds would earn a bonus. Were this to happen over a number of months, investors could gain capital whilst the stock market has not grown.

At the same time, should the stock market fall by 5% or more each and every quarter, investors would lose 5% of their capital each quarter in the Protected With Bonus 95 funds. In the Protected With Bonus 100 funds the fund value will normally remain flat under such circumstances. In fact, the Protected With Bonus 100 funds normally grows unless the stock market falls by 5% or more.

You should note, however, that in the event of substantial stock market growth, investors will only receive the fixed bonus for the quarter and will not benefit from any further rise in the stock market.

Please refer to the "*Risk profile*" section on page 9.

**The Protected With Bonus funds offer either 95% or 100% capital protection each quarter. Investors can access these funds directly or through the *safe combination*<sup>®</sup> system.**

# Worked examples

Consider an investor who has a fund value of £20,000 at the start of the quarter and has selected the Protected Europe With Bonus fund with 95% capital protection. The EURO STOXX 50 index stands at 3,000 at the start of the quarter and the predetermined bonus rate for this fund is 10% of the protected capital.

## Example 1 – full bonus

Let us say that, despite a 10% fall in the stock market at one point during the quarter, the EURO STOXX 50 recovers and ends the quarter where it started at 3,000. Because the index has not fallen, the investor receives the full bonus rate of 10%.



PROTECTED CAPITAL AMOUNT:	95% OF £20,000 = £19,000
BONUS:	10% OF £19,000 = £1,900
NEW INVESTMENT VALUE:	£19,000 + £1,900 = £20,900

So the full bonus is paid even if the stock market does not rise. The fund has therefore grown by 4.5% over the quarter, despite no stock market growth.

## Example 2 – partial bonus

Let us say, using the same criteria, that despite a 15% fall in the stock market during the quarter, the EURO STOXX 50 partially recovers and ends having fallen 2% at 2,940.



PROTECTED CAPITAL AMOUNT:	95% OF £20,000 = £19,000
BONUS [10%-(10%×2%/5%)]:	6% OF £19,000 = £1,140
NEW INVESTMENT VALUE:	£19,000 + £1,140 = £20,140

A partial bonus is payable since the index has fallen, but by less than 5%. The full bonus rate is reduced in proportion to the index fall - every 1% fall in the index results in a loss of one-fifth of the full bonus rate.

In this example two-fifths of the bonus rate is lost so a partial bonus rate of 6% is paid even though the stock market has fallen. The fund has grown by 0.7% despite the fact that the stock market has fallen by 2%.

# Worked examples - continued

It is possible that the partial bonus achieved could still leave the new investment value below the starting value of £20,000. Even in these circumstances, the fund performs better than the chosen index over that quarter.

In fact, only in the event of the stock market index falling by 5% or more will no bonus be added to the protected capital. In these circumstances investors have the peace of mind of knowing that their capital is 95% protected.

The bonus rate used is for example only. Actual bonus rates may be higher or lower than the one shown and change from quarter to quarter. Funds with higher protection levels have lower bonus rates. The examples do not take into account any charges.

*The figures used in these examples are for illustrative purposes only and are not guaranteed. You might get back more or less than this. The value of your investments can fall as well as rise. Please refer to the Key features for full details of the charges.*

## **Risk profile (technical details)**

Protected With Bonus 100 funds are lower risk than the Protected With Bonus 95 funds. It should also be noted that the risk profile (and potential reward) of the Protected With Bonus fund range is lower than the Protected Index fund range.

There are two reasons for this. Firstly, the Protected With Bonus fund can grow when the stock market is flat or indeed when it falls by a little, which is not the case with the Protected Index fund range.

Secondly, there is a greater probability of the stock market being up or flat over a quarter than there is of it falling. Therefore there is a greater chance that bonuses will be paid on the Protected With Bonus fund range.

However, as the bonuses are at predetermined levels on the Protected With Bonus fund range, in the event of the stock market rising substantially, only a modest bonus by comparison will be paid. Again this is very different from the Protected Index fund range.

Overall, the Protected With Bonus 95 funds have a risk and reward profile about halfway between cash and the stock market. The Protected With Bonus 100% funds are closer to cash but are even lower risk than the Protected Index 100 funds, as they always grow unless the stock market falls by 5% or more.



# Protected Deposit Bonus funds

## How do the Protected Deposit Bonus funds earn a bonus?

1. At the start of each quarter a bonus rate is declared which will be paid in the event of both the S&P 500 and the FTSE 100 not falling over a quarter. The bonus rate is expressed as a percentage of the protected capital.

The bonus rate is different for each fund and will change from quarter to quarter. In general terms, bonus rates will be higher when interest rates are high, volatility low and correlation between the two stock markets low, although this is not always the case. The starting levels of each index are also declared at the start of the quarter.

2. At the end of the quarter the bonus will be added to the protected capital provided neither stock market has fallen. The closing level of the index used in these calculations is normally the average value of the index over the final five days of the quarter.
3. This new value forms the starting value for the following quarter.

You should note that in the event of BOTH stock markets remaining flat over a quarter, investors in the Protected Deposit Bonus funds will earn a bonus. Were this to happen over a number of months, then investors could gain capital whilst the stock markets have not grown.

At the same time if EITHER stock market were to fall by even a small amount each and every quarter, investors would lose 5% of the capital each quarter in the Protected Deposit Bonus 95 funds. In the Protected Deposit Bonus 100 funds the fund value would remain flat under such circumstances.

However, in the event of substantial stock market growth, investors only receive the fixed bonus for the quarter and will not benefit from any further rise in the stock market.

Please refer to the "*Risk profile*" section on page 12.

**Investors can only access the Protected Deposit Bonus funds with capital protection levels of 95%, 96%, 97% and 98% each quarter, through the *safe combination*<sup>®</sup> system.**

# A worked example

Consider an investor who has a fund value of £20,000 at the start of the quarter and has selected the Protected Deposit Bonus fund with 95% capital protection (only available through the *safe combination*<sup>®</sup> system). The FTSE 100 and the S&P 500 indices stand at 5,000 and 1,200 respectively and the bonus rate for the fund this quarter is 11%.

Let us say that the closing level of the FTSE 100 is 5,100 and the S&P 500 closes at 1,250. These levels represent the average index levels over the last five days of the quarter. As neither index has fallen and the bonus depends on the index movements over the entire quarter, the bonus is added to the protected amount. The fund value to be carried forward to the next quarter would be calculated as follows:



PROTECTED CAPITAL AMOUNT:	95% OF £20,000 =	£19,000
BONUS: 11% OF	£19,000 =	£2,090
NEW INVESTMENT VALUE:	£19,000 + £2,090 =	£21,090

If either index had fallen – even by a small amount, the new fund value would be £19,000 – the protected capital amount.

The bonus rate used is for example only. Actual bonus rates may be higher or lower than the one shown and change from quarter to quarter. Funds with higher protection levels have lower bonus rates. The examples do not take into account any charges.

*The figures used in these examples are for illustrative purposes only and are not guaranteed. You might get back more or less than this. The value of your investments can fall as well as rise. Please refer to the key features document for full details of the charges.*

### **Risk profile (technical details)**

Protected Deposit Bonus 100 funds are lower risk than the Protected Deposit Bonus 95 funds. It should also be noted that the risk profile (and potential reward) of the Protected Deposit Bonus fund range lies between the Protected With Bonus and Protected Index fund ranges.

Unlike the Protected With Bonus funds these funds cannot rise when the stock market falls. Indeed, as this range is linked to two stock markets, there is the additional risk that although only one may fall, possibly by a very small amount,

you will not receive a bonus. To compensate for this risk, the bonuses which the Protected Deposit Bonus funds can earn are generally higher than those for the Protected With Bonus funds.

At the same time, in the event of the stock markets rising substantially, only the fixed bonus will be paid which is likely to be lower than the bonus which the Protected Index funds would pay.

Therefore the Protected Deposit Bonus funds sit between the risk profile of the Protected With Bonus and Protected Index funds.

# The Protected Cash Bonus fund

## Fund overview

The Protected Cash Bonus fund provides a return by investing in offshore bank, building society and similar deposits thereby allowing investors to benefit from capital protection. The fund aims to perform better than leading offshore deposit accounts.

Although investment in the world's stock markets has consistently provided greater rewards than deposit accounts, many investors prefer to retain part of their portfolio in cash. The main attraction of deposit accounts is their level of security coupled with the interest rate they can provide.

However, a major disadvantage of deposit accounts, whether onshore or offshore, is that they are often not an integral part of investors' portfolios. This can make it difficult for investors to employ all of the safety features that cash deposits can offer.

The Protected Cash Bonus fund is an alternative for investors who wish to enjoy the security of a cash deposit while benefiting from the tax advantages of an offshore life assurance bond. The value of tax benefits depends on individual circumstances and can change.

## How the fund works

The Protected Cash Bonus fund invests in offshore bank and building society deposits which offer complete capital protection. The choice of accounts is managed with the aim of achieving a highly competitive return while offering investors access to their capital.

The Protected Cash Bonus fund is a managed fund investing in offshore bank and building society deposits.

It is not itself a bank or building society account, as both of these would typically offer capital security guarantees and easy access at any time, usually without penalty.

**You should note that this fund is not available through the *safe combination*<sup>®</sup> system.**



# Important information

## Measuring stock market index growth

Each quarter, each fund buys assets to provide the capital protection and growth potential required. At the moment when the assets providing the growth potential are purchased, the level of the relevant stock market index is taken and this forms the starting level (or strike level) for the quarter. In normal circumstances, we purchase assets at these times, on these dates:

FTSE 100: first Monday in the investment quarter at 4.30 pm UK time

S&P 500: first Monday in the investment quarter at 4.30 pm UK time (11.30 am New York time)

Nikkei 225: first Tuesday in the investment quarter at 1.00 am UK time (10.00 am Japanese time)

EURO STOXX 50: first Monday in the investment quarter at 4.30 pm UK time (5.30 pm Central European Time)

Nasdaq-100: first Monday in the investment quarter at 4.30 pm UK time (11.30 am New York time)

At the end of the investment quarter, the indices are measured again, so that the growth over the quarter can be measured. In normal

circumstances, the last stock market levels which we record are taken at these times, on these dates:

FTSE 100: last Friday in the investment quarter at 11.00 am UK time

S&P 500: last Thursday in the quarter at the official close in New York

Nikkei 225: last Friday in the investment quarter at the official close in Tokyo

EURO STOXX 50: last Friday in the investment quarter at 11.00 am UK time (12.00 noon Central European Time)

Nasdaq-100: last Thursday in the investment quarter at the official close in New York

The differences in the timing for both the starting and end levels are due to time zone differences across the different stock markets. Please note that these timings take no account of British summertime and how it differs from other regional blocks.

For the Protected Index funds and the Protected Deposit Bonus funds the end levels are averaged over the last five working days, ending at the times and dates shown above.

In the event of stock market disruption, we reserve the right to alter these timings.



# Important information - continued

This *Investment guide* should be read in conjunction with the product *Brochure* and *Key features* of Scottish Life International's *safe combination*<sup>®</sup> bond. Investors should pay particular attention to the section headed '*Risk factors*', '*Where is my money invested?*' and '*What are the charges?*' in the *Key features*.

The stock market indices mentioned measure capital performance only and include no allowance for dividend payments from their constituent shares.

The rates of return shown are not necessarily appropriate for contracts written in currencies other than sterling. In circumstances where the investor subscribes in a currency other than sterling, benefits may be affected by fluctuations in exchange rates.

Scottish Life International reserves the right to change the investment objective of any of the funds, after giving written notice and provided it believes that such a change is in the best interests of its policyholders.

The value of tax benefits depends on individual circumstances and may change in the future. All returns are gross of tax.

Investors should be aware that the value of investments can fall as well as rise and is not guaranteed.

A full description of the charges can be found in the key features document. For further information on the *safe combination*<sup>®</sup> bond, investors should consult their financial adviser.

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