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# LIFESTYLE PORTFOLIOS

Terms and Conditions  
Lloyds Bank International Limited

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**LLOYDS BANK**

## 1. Your rights

- 1.1 We will use reasonable care and skill in implementing this Agreement.
- 1.2 For your protection, the Securities in your Portfolio are kept separately from our own assets and held strictly in accordance with the Regulations and as described in clause 7.
- 1.3 If you are not satisfied with the Service provided by us, we have a complaints procedure which you can use to voice your concerns. Please see clause 19.5 for more details.
- 1.4 You may terminate this Agreement at any time by giving us written notice in accordance with clause 16.1.
- 1.5 You may withdraw money from the Portfolio at any time on reasonable notice and upon giving us sufficient information in accordance with clause 3.10.
- 1.6 Interest will be paid on credit balances in accordance with clause 3.11.

## 2. Definitions

In these Terms and Conditions, unless otherwise indicated, the following words have the following meanings:

- 2.1 'Agreement', the agreement created when we confirm our acceptance of a duly completed Application Form on the terms set out in these Terms and Conditions and comprised of your Application Form together with the Guide to Fees from time to time in force as well as these Terms and Conditions.
- 2.2 'Application Form', the application form submitted by you to us in relation to the Service.
- 2.3 'Approved Bank', an approved bank defined as such by the Regulations.
- 2.4 'Assets', the assets comprised in the Portfolio from time to time.
- 2.5 'Associate', an undertaking in Lloyds Banking Group or an appointed representative of any undertaking in Lloyds Banking Group.
- 2.6 'Authorities', any police authority or other agency of investigation or any regulator or enforcement authority whether that organisation is in Jersey or elsewhere.
- 2.7 'Bank/we/us', is Lloyds Bank International Limited registered in Jersey at PO Box 160, 25 New Street, St Helier, Jersey, company No. 4029 and trading as Lloyds Bank.
- 2.8 'Encumbrance', any mortgage, charge, security interest, pledge, lien or other instrument or mode of security.
- 2.9 'Guide to Fees', the guide initially provided with your Application Form and these Terms and Conditions which contains information on the fees and charges for the Service, as amended from time to time.
- 2.10 'Investment Objectives', the aims with regard to investment stated in your Application Form as one of "Income", "Shelter", "Build" or "Aspire" or as subsequently varied by agreement between us in writing.
- 2.11 'Lloyds Banking Group' or 'Our Group', means companies which are members of the Lloyds Banking Group, which includes us and a number of other companies using brands including Lloyds Bank, Halifax and Bank of Scotland, and their associated companies. More information on the Lloyds Banking Group can be found at [lloydsbankinggroup.com](http://lloydsbankinggroup.com). For these purposes "associated companies" includes Lloyds Banking Group plc and any subsidiary, affiliate or other firm directly or indirectly controlled from time to time by either Lloyds Banking Group plc or us.
- 2.12 'Nominee', one or more of the nominee companies whom we or a custodian may appoint to hold Securities on your behalf.
- 2.13 'Person', an individual, a body corporate or more than one individual and/or body corporate.
- 2.14 'Portfolio', the Securities and/or monies for the time being held by us or a nominee or custodian for the purpose of investment management under the Service.
- 2.15 'Regulations', the legislation and any amendment or re-enactment of such legislation in relation to the conduct of investment business under Jersey law including the Financial Services (Jersey) Law 1998, the Financial Services (Investment Business (Client Assets)) (Jersey) Order 2001 and all other regulations and orders made pursuant to the Financial Services (Jersey) Law 1998 from time to time.
- 2.16 'Securities', units in collective investment schemes as further described in clause 3.8 in which we will deal for the account of your Portfolio.
- 2.17 'Service', the Lifestyle Portfolios investment management service which we provide to you pursuant to this Agreement in accordance with your selected Investment Objectives.
- 2.18 'You', the applicant(s) named in the Application Form.

## 3. Your Portfolio

- 3.1 This Agreement commences on either the date of our welcome letter notifying you that all account opening formalities have been satisfactorily completed, or the date on which we receive monies from you for your investment in the Portfolio, whichever is later.
- 3.2 The Service invests in collective investment schemes, the provider of which may be a Lloyds Banking Group company, or an external third party.
- 3.3 We will advise you of the initial value and composition of your Portfolio as soon as reasonably practicable after such Portfolio is completed.
- 3.4 Placing your investment money under our management to invest in a Portfolio constitutes a representation upon which we may rely that:
  - 3.4.1 you have the power to enter into and perform your obligations under this Agreement and that it is valid, legal and binding upon you;
  - 3.4.2 save as disclosed to us in writing, the monies introduced into the Portfolio are your own property or property over which you have control free from any Encumbrance;
- 3.5 You can add further monies to your Portfolio at any time, provided that the further monies meet the minimum amount set by us and are accepted by us at our discretion;
- 3.6 You undertake that, unless with our prior consent, you will not dispose of, encumber or otherwise deal with any of the Assets in the Portfolio before the relevant Asset has been withdrawn from the Portfolio;
- 3.7 We may from time to time give advice on investments or money outside your Portfolio but we are under no duty to manage such investments or money or to keep them under continuous review;
- 3.8 Depending on your Investment Objectives, the collective investment schemes in which your Portfolio will be invested could include:
  - 3.8.1 equity funds;
  - 3.8.2 gilt funds;
  - 3.8.3 corporate bond funds;
  - 3.8.4 cash funds;
  - 3.8.5 index tracking funds, including exchange traded funds;
  - 3.8.6 property funds;
  - 3.8.7 high yielding bond funds;
  - 3.8.8 interest rate-hedged corporate bond funds;
  - 3.8.9 absolute return bond funds;
  - 3.8.10 absolute return equity funds;
  - 3.8.11 emerging market equity funds; and
  - 3.8.12 commodity funds.
- 3.9 Your Portfolio could be invested in collective investment schemes and securities:
  - 3.9.1 the price of which may be affected by currency fluctuations;
  - 3.9.2 which are exposed to leverage;
  - 3.9.3 the price of which may be being stabilised; and/or
  - 3.9.4 on which performance fees may be payable.

Your attention is drawn to the risk warnings in Appendix A.

- 3.10 You can give instructions to withdraw money (including both capital and income) from your Portfolio at any time on reasonable notice and on giving us such information as we may require. Withdrawals will be made from the account nominated in your Application Form, as amended from time to time.

There are no charges for withdrawing money from your Portfolio, however at any point withdrawals are made, market movements may have resulted in a reduction in the value of your Portfolio (see attached risk warnings in Appendix A). Withdrawals will be subject to the minimum level set by us as may be amended from time to time. This is necessary, for example, because of the administrative costs involved in arranging partial withdrawals and because your Portfolio needs to be of at least a certain value for it to be effectively managed in accordance with the Investment Objectives that you have chosen for your Portfolio.

- 3.11 Capital accounts and income accounts (applicable where income has been nominated in the Application Form) will be opened to facilitate the administration of the Portfolio. You will earn interest on credit balances, other than in circumstances set out below, and you agree to pay interest on debit balances. The relevant interest rates will be determined by the Bank and will vary from time to time. Interest will not be paid on certain accounts if the credit balances fall below a stipulated minimum. These minimum amounts are described in the Bank's current interest rate sheet, a copy of which will be sent to you on request.
- 3.12 In managing the Portfolio we may at our absolute discretion, enter into sale and purchase contracts of currency (whether on a spot, forward or other basis) on your behalf.
- 3.13 In the event of you having a liability in one currency which is to be matched by an asset in a different currency, or where an asset under management is denominated in a currency other than the agreed base currency of the Portfolio, you acknowledge and are aware that a movement of exchange rates may have an independent effect, which may be favourable or unfavourable, on the gain or loss otherwise experienced on the asset.
- 3.14 You understand and agree that the value of each holding in your Portfolio as well as the value of your whole Portfolio may go down as well as up as a result of market or currency movements. Income from the Portfolio may be similarly affected.
- 3.15 We shall be under no obligation to arrange for you to receive copies of unitholders' annual reports and accounts, circulars to shareholders or notices.
- 3.16 We shall have no responsibility to arrange for you to attend shareholders' or unitholders' meetings or to direct how we or our nominee should vote on your behalf at such meetings.
- 3.17 We shall not become involved in or have any responsibility for any shareholder, class or similar actions in respect of Securities registered in the name of a nominee or custodian. However, we may at our discretion notify you of such actions affecting your Securities which have come to our attention, where it is reasonable and practicable to do so.

#### 4. The Service

- 4.1 In this Service you grant us absolute discretion without reference to you to manage and to make purchases and sales for the Portfolio on your behalf in accordance with the Investment Objectives or as agreed in writing from time to time.
- 4.2 We are responsible on a continuing basis for managing the Securities within your Portfolio, in accordance with the Investment Objectives that you have chosen.
- 4.3 You should inform us at any time if there are or have been any material changes that may affect your Investment Objectives or attitude to risk for your Portfolio, so that we can discuss with you how best to meet your future needs and objectives.
- 4.4 We do not monitor assets you hold outside the Portfolio or keep them under continuous review. You should therefore consider any changes to such assets and how they might impact on the Investment Objectives that you have chosen for your Portfolio. You may discuss with us and amend your Investment Objectives at any time.
- 4.5 We will exercise our discretion, in accordance with your Investment Objectives, as to whether to receive income or accumulation units or shares for any collective investment schemes in your Portfolio.
- 4.6 We will credit your account (being the account nominated in your Application Form, as amended from time to time) with dividends, interest and other payments (such as equalisation payments) arising from your Portfolio as soon as practicable following receipt by us. We are not responsible for losses caused by another party's wrongdoing, including unpaid or late dividends and interest payments. Unless agreed otherwise, sums which we receive in a foreign currency will be converted into the base currency of your Portfolio, normally within one business day of receipt. We are not responsible for the effect of any currency movements between the date the payment becomes due and its receipt and conversion into the base currency of your Portfolio.
- 4.7 Cancellation rights do not apply to the Service.

#### 5. Borrowing

- 5.1 In order to cover settlement and fees and charges obligations you consent to the creation of an overdraft repayable by you. We will not create an overdraft for any other purpose or otherwise commit you to supplement the funds in the Portfolio. Costs of this overdraft are available on request.

#### 6. Accounts

- 6.1 You hereby authorise us to:
- 6.1.1 open, operate, make transfers between and close any capital accounts and income accounts required for the Portfolio;
- 6.1.2 take any necessary action to ensure that the Regulations are complied with where your money is held in client bank accounts;
- 6.1.3 withdraw our fees from the base currency capital account for your Portfolio;
- 6.1.4 settle purchases as your agent using our own money. If so, you will owe us a debt for such sum and when an equal amount of your money is credited to a settlement account, we may transfer it to ourselves. Pending such transfer you hereby grant to us a 'first fixed equitable charge', pledge, lien and right of set off in respect of the relevant Securities comprising the Portfolio, having full beneficial title thereto and having the right to do so free from all other rights exercisable by third parties as a continuing security for such debt;
- 6.1.5 credit you on settlement day from our own money with anticipated proceeds of sale. If so, you will retain title to the relevant Securities until market settlement and you hereby direct us to receive for our own account the relevant sale proceeds. Pending such receipt you hereby grant to us a first fixed equitable charge, pledge, lien and right of set off in respect of the relevant Securities with full title guarantee free from all adverse interests as continuing security for such credited advance;
- 6.1.6 act as your agent in connection with the sub clauses above for you and in your name to assign and/or transfer for our benefit and into our sole name or to the nominee or custodian such Securities, to sell the same and to apply the proceeds of sale thereof in discharge of your liability to us.
- 6.2 Any debit balances are repayable by you on demand. Termination of this Agreement will always (subject to your legal rights) constitute such a demand.
- 6.3 Where we pay or receive on your behalf amounts denominated in other currencies, we may arrange for the necessary currency conversions. Such conversions are not necessarily made at the time of the underlying transaction and your exposure to foreign currencies will for this reason not immediately change to reflect the transactions which you have done.
- 6.4 You agree that, if we hold foreign currency for you, we may, with your consent, use a client bank account with an Approved Bank other than the Bank, notwithstanding that money in such an account may not be protected as well as if it is in Jersey. Provided that we take reasonable care in the selection of such an Approved Bank, we will not be liable for its defaults.
- 6.5 For the avoidance of doubt, we confirm that any existing authority you have given to us concerning matters unconnected with this Service is not overridden by this Agreement.
- 6.6 If you hold a current or savings account with any other bank within Lloyds Banking Group, we do not accept liability for any failure of such other bank in connection with such accounts.
- 6.7 If any money is held for you in bank accounts in Jersey in companies which are part of Lloyds Banking Group which are subject to the Regulations, it shall be held on trust:
- 6.7.1 as provided by the Regulations;
- 6.7.2 for us to the extent of all sums due or which may become due to us under or pursuant to this Agreement;
- 6.7.3 subject thereto for you.
- 6.8 The additional rights and protection granted by the Financial Services (Investment Business (Client Assets)) (Jersey) Order 2001 in respect of client money held in an account for more than one client will not apply to an account which holds money belonging only to you.

#### 7. Custody

- 7.1 We will provide custody of the Securities in your Portfolio and our Service will include safekeeping of documents of title (if any) and registration of the Securities concerned:
- 7.1.1 in the name of a nominee; or
- 7.1.2 in the name of any other company or institution; which in either case is permitted to so act by the Regulations.

Our obligations are subject to having received (and having acknowledged receipt of) the Securities concerned.

- 7.2 All documents of title (whether relating to registered or bearer Securities) will be held by us, the nominee or by a custodian selected by us (which may or may not be part of Lloyds Banking Group) and permitted to act by the Regulations.
- 7.3 Your Securities may be registered collectively with Securities belonging to our other clients or clients of other parties. Your individual Securities may not be identifiable from those of third parties by separate documents of title, certificates or equivalent electronic records although the amount of your holding is recorded and separately identified by us.
- 7.4 If any Securities are held by a nominee or custodian outside of Jersey, additional settlement, legal and regulatory requirements may apply in such overseas jurisdictions, together with different practices for the separate identification of your Securities.
- 7.5 We will exercise reasonable care in selecting and supervising nominees and custodians which are not members of Lloyds Banking Group, but we do not accept responsibility for the performance of their obligations.
- 7.6 If any Securities are held by a nominee or custodian which becomes insolvent or otherwise defaults in its obligations, you may only be able to recover those Securities or their value to the extent possible as an unsecured creditor of the nominee or custodian.
- 7.7 Unless both of us agree in writing and we enter in to a separate agreement, we will not lend to, or deposit by way of collateral with, a third party the documents of title relating to your Securities, nor will we borrow any money on the security of them on your behalf.
- 7.8 We may at our discretion refuse or cease to hold or register any or all of your documents of title where it is unreasonable or impracticable for us to do so.
- 7.9 Securities in your Portfolio may be deposited with or held by us or a nominee or custodian within Lloyds Banking Group in an appropriate clearance system. You authorise the holding of your Securities in this way.
- 7.10 You acknowledge and agree that:
- 7.10.1 the holding of your Securities in a clearance system and all dealings in those Securities and in the accounts in which they are held will be subject to all the terms of our participation in or membership of that clearance system (including its rules and requirements); and
- 7.10.2 we may take all necessary steps to fully observe those terms.

## 8. Instructions

- 8.1 We are authorised to accept instructions in accordance with the instructions in your Application Form, or such other instruction or form of instruction as notified to us in writing and agreed by us.
- 8.2 Please direct all communications to Lloyds Bank International Limited at PO Box 195, 11–12 The Esplanade, St Helier, Jersey JE4 8RS. No notice will be treated as having been given to us until we have actually received it.
- 8.3 We may at our discretion accept instructions other than in original written form (which includes telephone, email and facsimile).
- 8.4 We will accept instructions in respect of this Agreement from an attorney or other person recognised under the law of Jersey as being able to provide such instructions.

## 9. Delegation or assignment

- 9.1 We may, where considered appropriate, use outsourced agents (which may be our Associates) in the course of providing the Service. Use of an outsourced agent will not diminish our liability to you in accordance with this Agreement (regardless of whether the outsourced agent we choose is our Associate) and will not result in further obligations on your part. We may also delegate any part of the Service to another party in a way which makes that other party responsible to you. If we delegate any part of the Services in this way, we will not be liable for the defaults of that other party in connection with the part of the Service for which they are responsible (provided that we have exercised reasonable care in selecting them and subject to the Regulations). However, where we delegate any part of the Services to our Associates, we will remain responsible in cases of their wilful default or gross negligence in accordance with clause 15.1.
- 9.2 We may at any time on written notice to you transfer all or any of our rights, powers and duties hereunder to any person, whereupon references to us in this Agreement should where appropriate be read as references to that person.

- 9.3 You have no right to transfer your rights or obligations under this Agreement or your Portfolio without first obtaining our consent in writing.

## 10. Your personal data and Lloyds Banking Group

- 10.1 Examples of how we deal with your personal information are now set out in a new section at the end of this document entitled 'Important information about your personal information'.

## 11. Compliance

- 11.1 You warrant and undertake that the money introduced to the Portfolio has been and will continue to be lawfully introduced and is not and will not be derived from or otherwise connected with any activity which is illegal or unlawful in their country of origin or in Jersey.
- 11.2 We will not be required in any part of the Services to act in such a way as, in our opinion, might infringe any relevant law, rule, regulation or code or give rise to the risk of criticism for impropriety or departure from good market practice.
- 11.3 It will be for you to obtain all necessary exchange control or other official or regulatory approvals for any handling of the Portfolio or the accounts linked to the Service.
- 11.4 It is your responsibility to ensure that any tax liability in relation to the Portfolio is accounted for by you to your appropriate tax authorities.
- 11.5 You have responsibility to make tax returns to revenue authorities in jurisdictions where you are accountable. We will provide supporting documentation on request.
- 11.6 We shall not be liable for any tax liability suffered by you, as a result of decisions made in the course of management of the Portfolio.
- 11.7 We recommend that you seek independent tax advice prior to establishing your Portfolio and thereafter.
- 11.8 We shall consider you to be a retail client unless agreed otherwise by both parties.
- 11.9 You undertake to notify us if you are or become a US Person as defined in the US Securities Act 1933.
- 11.10 Tax reporting and withholding for clients who are subject to the tax regime of certain other countries (including UK and US).
- 11.10.1 We (or other companies in the Lloyds Banking Group) may be required by legislation or by agreement with tax authorities to report certain information about you (or, if you are a corporate, about your direct and indirect owners or, if you are a trust, about your trustees and beneficiaries) and your relationship with us, including information about your accounts:
- to the tax authorities in the Channel Islands and the Isle of Man, which may then pass that information to the tax authorities in another country where you may be subject to tax; or
  - directly to the tax authorities in other countries (such as UK and US) where we reasonably think or are required to presume you are subject to tax.
- 11.10.2 Where we are required to report information about you and/or your relationship with us, including information about your accounts, this information includes (but is not limited to) the account number, the amount of interest paid or credited to the account, the account balance or value, your name, address, country of residence and social security number or taxpayer identification number. In addition, we may need you to provide us with further information, documents or certifications about your identity, tax residence, nationality and status.
- 11.10.3 If we are required to report information about your accounts, you agree that:
- you will provide additional information or documents we need from you and that confidentiality rights under applicable data protection, bank secrecy or similar laws will not apply to information we report or obtain from you to comply with our obligations;
  - if you do not provide us with information or documents we need, we may be required by certain jurisdictions to
    - apply a withholding tax to amounts, including interest, we pay to you; or
    - close your account; or
    - transfer the account to an affiliate in another jurisdiction; and

- c. we will not be liable to you for any loss you may suffer as a result of our complying with legislation or agreements with tax authorities in accordance with this condition, unless that loss is caused by our gross negligence, wilful default or fraud.

## 12. Reporting

- 12.1 You will not receive a written record of every transaction executed within your Portfolio as part of the Service immediately following each such transaction, unless you request this in writing. Details of every transaction will however, be included with your statement of financial affairs.
- 12.2 We will provide, at least every six months, a periodic statement of financial affairs, which will include a valuation of your Portfolio, details of any transactions carried out in the preceding period, any cash positions held and a suitable comparison indicator of the performance of the Portfolio with the movement of the market.
- 12.3 Values (wherever possible market values) provided by outside sources for each asset will be taken as appropriate for such Asset. We will not be responsible for any errors or omissions in information obtained from outside sources or delays in providing a valuation where it has not been possible for us to obtain information from such sources.

## 13. Fees and expenses

- 13.1 You agree to pay the fees and charges under this Agreement, which are laid down in the Guide to Fees, and may be subject to amendment from time to time. You will be notified at least 30 days before any fee increase takes place.
- 13.2 The fees and charges applicable to your Portfolio, which are set out in the Guide to Fees, are as follows:
  - 13.2.1 Establishment fees in respect of the costs associated with the setting up of your Portfolio may be payable;
  - 13.2.2 An annual management charge. Annual management charges are calculated quarterly in arrears on the average Portfolio value in the quarter. To calculate the average value for a Portfolio for a quarter ending March, June, September or December, we add together the values of the Portfolio at the end of each month in that quarter and divide by three. The percentage fee applied to this average Portfolio value is one quarter of the annual percentage fee set out in the Guide to Fees or one quarter of the minimum fee whichever is the greater. Annual management charges will normally be taken within 17 days of the quarter end. Any Portfolio closed within a charging period will be charged on a pro-rata basis. They will supplement, and not be abated by, any other remuneration receivable by us (or any Associate of ours) in connection with any transactions effected by us with or for you and you consent to the retention of any such remuneration by us.

- 13.2.3 An additional charge may be payable each time you add additional funds to your Portfolio.

- 13.3 You should be aware that in addition to the fees and charges mentioned above, for collective investment scheme investments, the fund managers controlling those investments will impose further charges which affect the price of those holdings. These include dilution levies, charges made on the purchase (such as stamp duty), annual charges for investment management and certain other charges that may be charged to the fund in which the investment is made. You should also be aware that Securities may be purchased at the buying, or offer, price and sold at the selling, or bid price. At certain times, such as when markets are volatile, or in the case of a large deal, a dilution levy may also be applicable. The net cost of purchases and sales will be shown on your periodic Statement of Financial Affairs.
- 13.4 We may make additional charges upon having given notice of such charges to you, for any extra services supplied in addition to those specified in this Agreement.
- 13.5 You agree that in the event of your death, unless you comprise more than one person and the survivor or survivors of you are entitled to the whole of the Portfolio upon the death of one of you, all such fees, charges (including additional charges under clause 13.4 above), interest, expenses and liabilities remaining unpaid at the date of your death will be withdrawn from your Portfolio, upon our giving at least 14 days' notice of our intention to do so to your personal representative (upon our receipt of such evidence as to status and on completion of such formalities as we require including grant of probate or other letters of administration), such notice to include precise details of the breakdown of the proposed payment.
- 13.6 You hereby authorise us to withdraw all such fees, charges (including additional charges under clause 13.4 above), interest, expenses and liabilities from your Portfolio, without any necessity to give notice and to effect any realisations from the Portfolio which we think fit in order to meet such sums in whole or in part.
- 13.7 You should be aware of the possibility that other taxes or costs may exist that are not paid through or imposed by us.

## 14. Material interest

- 14.1 Lloyds Banking Group has established and implemented a Conflicts Policy (which may be revised and updated from time to time) under the applicable regulations, which sets out how we must seek to identify and manage all material conflicts of interest. Such conflicts of interest can occur in our day to day business activities, for example, where one of our clients could make a gain at the direct expense of another client, or we might be faced with an opportunity to make a gain but this would be to the direct disadvantage of one or more of our clients.
- 14.2 In most instances, our objective will be to eliminate the conflict of interest entirely. However, in some situations, depending on the exact nature of the conflict involved, this may not be possible. We will, in such cases, take the necessary actions in accordance with the Conflicts Policy to mitigate the potential impact of the conflict, to monitor the outcome and to ensure that we are being as fair as possible to all our clients.
- 14.3 This may involve putting in place controls between the opposing sides of the conflict, which may control or prevent the exchange of information, and/or involve the appropriate management of staff activities and segregation of duties. Where such controls would be insufficient to eliminate all the risk from specific conflicts of interest, then we will disclose the general nature and/ or source of conflicts to you prior to us undertaking business. If you wish to have further information on the Conflicts Policy, or on any specific conflict of interest that you think might affect you, please contact us.
- 14.4 We may carry out transactions on your behalf with product providers and other companies who pay us fees, commissions and/or provide us with other non-monetary benefits such as training, research reports, access to information terminals, hospitality, marketing materials, sales documentation, travel and accommodation expenses and other similar items. We may also pay or receive fees or commissions, or provide or receive non-monetary benefits, to or from other third parties in connection with the business that we carry on with you.
- 14.5 We will not pay or accept any fee, commission or other non-monetary benefit if it is likely to impair our ability to act in your best interests. We will also follow the applicable regulations in checking that in certain cases the relevant fee, commission or other non-monetary benefit is designed to enhance the quality of the Service that is provided to you.

- 14.6 We will provide details of any such fees or commission that we may pay or receive before we do the relevant business with you. We will provide you with further details of these fees or commissions received or provided by us, on request.
- 14.7 We or an Associate may from time to time enter into so-called 'soft commission agreements' with any brokers through whom we might at our discretion effect transactions on your behalf. Under such agreements and in return for a minimum amount of business, goods or services such as research reports or access to information terminals, are granted to us which assist us in our Service to you and our policy is to make such arrangements only if we can ensure that you will receive best execution and not be placed at any comparative price disadvantage.
- 14.8 We may acquire or dispose for your Portfolio units or shares in a collective investment scheme for which we or an Associate may be adviser or custodian, or which is operated by an Associate.
- 14.9 The Portfolio may contain Securities in which an issue or offer for sale was underwritten, managed or arranged by an Associate during the last twelve months or, where we consider that it is in your best interests, Securities issued by an Associate, notwithstanding that this may involve a potential conflict with our duties under these Terms and Conditions to you.
- 14.10 We may effect transactions relating to units or shares in a collective investment scheme where commission is payable to us or an Associate by the product company, in which case you will be notified in writing of information relating to such commission, including a monetary or percentage figure, prior to the transaction being executed.
- 14.11 Neither any Associate nor us will be liable to account to you for, or (save in respect of fees or commission charged and subject to the Regulations) to disclose, any profit obtained by reason of any transaction with or for you. Commission may be payable by us to an Associate out of fees received from you. We may receive a share of commission payable to an Associate by you. You consent to the retention by us of any such profit, commission or fees.
- 14.12 Subject to any payment of interest to you provided for by this Agreement, any Associate and we shall be entitled to retain any profit accruing from the moneys in the accounts in the Services and you consent to the retention by any Associate or by us of such profit.
- 14.13 We may, when dealing for you, deal at the same time with similar securities or monies for other clients or in other capacities. If it is in the overall best interests of you and all the other clients concerned, we may aggregate, mix or net off such trades so that the proportion of such securities or monies dealt with for the account of your Portfolio shall be attributed to your Portfolio. Aggregation may result in a number of transactions at different prices and we may then average out such transactions so that all clients involved pay or receive the same average price.
- 14.14 Your relationship with us is as described in this Agreement and nothing will impose any fiduciary or equitable duty on us or an Associate, which would prevent us or it while providing Services for you, from acting as principal, agent, counterparty or dealing with or for Associates or other clients and generally carrying out transactions as provided above, to which you consent accordingly.

## 15. Limits of responsibility

- 15.1 No warranty is given as to the performance or profitability of any Securities or moneys held or acquired in connection with the Service nor can responsibility be accepted for any decrease in, or loss of opportunity to increase, its value except in cases of our wilful default or gross negligence. Liability will be accepted for errors of fact or judgement or lawful acts or omissions only in cases of such wilful default or gross negligence by us or our Associates. Neither we nor any other member of Lloyds Banking Group shall otherwise be liable for any loss to you if it is not reasonably foreseeable. However, this clause will not exclude or restrict any duty or liability which we may have or owe to you under the law.
- 15.2 We do not accept responsibility for losses arising from industrial action or any cause beyond our reasonable control including, but not limited to, market conditions, inability to communicate with any relevant person or any insolvency, breakdown, failure or degradation of any settlement or transmission system or market or the providers of custody services or of any computer hardware or software used by an operator or any participant in any such system or market or, in the case of securities held within such systems, the failure by any settlement bank to make, receive, credit or debit any payment.
- 15.3 You accept that settlement may be postponed, or a transaction may be reversed, due to market turbulence.

- 15.4 You are responsible for paying our reasonable costs and/or expenses (and those of our respective nominees, custodians and Associates) incurred as a result of the Service being provided to you or which would not have been incurred otherwise. This clause will not apply if these costs and/or expenses were caused by us (or our respective nominees, custodians and Associates) intentionally acting wrongly or being negligent in any way. Any sums properly claimed by us in respect of such costs and/or expenses will be notified to you in writing and may be recovered by us in accordance with clause 13.6 above.
- 15.5 We may where there is, in our reasonable opinion, a legal duty or a requirement or it is deemed desirable by the Authorities and without any explanation to you withhold payment of monies held for you on the receipt of an instruction, request or advice of the Authorities. We will not be liable to you for any loss or loss of profit suffered directly or indirectly by you as a result of or in connection with the withholding of payment in the circumstance set out in this clause.
- 15.6 You undertake, even where this Agreement has been terminated, to ratify everything done by us under your authority.

## 16. Termination

- 16.1 We may terminate this Agreement at any time by service of notice to you in writing at least thirty days prior to the termination date. Subject to the following provisions of this clause 16, you may terminate this Agreement at any time by instructing us in writing to close your Portfolio.
- 16.2 Once we have received instructions from you to terminate this Agreement, or from the termination date set out in the notice we have given to you to terminate this Agreement, our authority will then continue for as long as, and only so far as, it necessary to enable your Portfolio to be closed by transfer to you of the Assets or the proceeds of sale of the Assets as you may, without delay, direct (or in the absence of direction, at our discretion). If you instruct us to sell any Securities, there may be some delay in selling holdings in Securities which are not readily realisable: see the risk warnings in Appendix A.
- 16.3 If Securities are to be transferred to you, subject to all necessary documentation being completed to the satisfaction of the collective investment scheme provider, we will arrange for the Securities to be reregistered in a name other than that of the nominee or custodian. There may be a cost involved in this, details of which are available on request.
- 16.4 If there are any possible outstanding liabilities or commitments affecting your Portfolio, we may either require you or an acceptable nominee of yours to assume them or we may retain Securities (with a power of sale) or cash sufficient in our opinion to meet those liabilities.
- 16.5 Termination is without prejudice to:
- 16.5.1 your or our rights and liabilities outstanding or arising pending return of your Portfolio;
- 16.5.2 the completion of instructions already initiated, pending which the Portfolio may be retained by us.
- 16.6 Once we have received instructions from you to terminate this Agreement, or from the termination date set out in the notice we have given to you to terminate this Agreement, if and for so long as the return of your Portfolio has not for any reason been completed, we will be entitled to hold it as nominee for you and to charge you our normal fee for acting as nominee. We will be under no duty to administer any of the Assets and under no liability for any loss resulting. We will charge the fee due from the last charges date prior to the date on which we receive your instruction to terminate this Agreement, or (where we have terminated this Agreement) the last charges date prior to the termination date set out in the notice we have given to you, until our final confirmation that your Portfolio closure is complete.
- 16.7 We also retain the right to make an additional charge for the work involved in discharging our full responsibilities to you.

## 17. Death of individuals

The authority which you give us in this Agreement comes to an end in the event of your death, unless clause 18 applies. We are entitled to treat the Agreement as terminated as soon as we have received official notification of your death. We will deal with your personal representatives on behalf of your estate (upon production of such evidence as to status and on completion of such formalities as we may require and in accordance with Jersey law) and the provisions of clause 16 above (other than clause 16.1) will then apply with references therein to 'you' being read as if they were references to 'your personal representatives', where appropriate.

## 18. Joint cases

- 18.1 Where 'you' consist of two or more persons, the following provisions will apply:
- 18.1.1 your liabilities to us will be joint and several;
- 18.1.2 notice to one or more of you will count as notice to all;
- 18.1.3 we may treat any request from you to accept instructions from one or some of you as valid and continuing until we receive notice of revocation by any one of you and meanwhile will not be liable for so acting on the ground that the person(s) nominated lacked or ceased to have authority;
- 18.1.4 we will not normally make enquiries about the purpose of any payment instruction or other instruction or confirm the instructions with the other joint clients, unless we are required to do so by law or a regulator;
- 18.1.5 on the death of any of you, the survivor(s) may be treated as the only person(s) entitled to give instructions and receipts;
- 18.1.6 on the death of the last survivor, clause 17 above will then apply.

## 19. General

- 19.1 We may amend any of these Terms and Conditions on giving notice to you which shall be 30 days prior to the amendment if it is to your disadvantage but may be less in other cases, if and when it is necessary or appropriate in order:
- 19.1.1 to comply with legal, fiscal or regulatory requirements;
- 19.1.2 to rectify errors, inaccuracies or ambiguities;
- 19.1.3 to take account of any corporate reorganisation within Lloyds Banking Group; or
- 19.1.4 to reflect alterations in the scope and nature of the Service provided to you under this Agreement in accordance with our systems capabilities, routines and administration procedures and having regard to market practice and overall client demands.
- 19.2 We will send all communications to you at the latest address you have given us and will not be under any further duty in respect of service of notices on you.
- 19.3 For the avoidance of doubt, we confirm that any existing authority you have given to us or any other company connected with Lloyds Banking Group concerning matters unconnected with the Services is not overridden by this Agreement.
- 19.4 This Agreement is in English. You agree that we can communicate with you in English about this Agreement once the contract is made.
- 19.5 If you want to make a complaint about this Agreement or the services provided by us please follow the procedures detailed in the brochure entitled 'How to complain – resolving your complaints with us' available from us or on application in writing from PO Box 195, 11–12 The Esplanade, St Helier, Jersey JE4 8RS.
- 19.6 The Bank is a participant in the Jersey Bank Depositors Compensation Scheme. The Scheme offers protection for eligible deposits of up to £50,000. "Eligible deposits" mean cash deposits held with a bank in Jersey, so deposits held with Lloyds Bank International Limited outside Jersey, or any other investments held in Jersey or elsewhere will not be covered by the Jersey Scheme. The maximum total amount of compensation is capped at £100,000,000 in any 5 year period. Full details of the Scheme and banking groups covered are available on the States of Jersey website [www.gov.je/dcs](http://www.gov.je/dcs) or on request.
- 19.7 The invalidity, unenforceability or illegality of any provision or part of a provision of this Agreement under the laws of any jurisdiction shall not affect the validity, enforceability or legality of the other provisions of this Agreement.
- 19.8 If any invalid, unenforceable or illegal provision would be valid, enforceable and legal if some part of it were deleted, the provision shall apply with the minimum modification necessary to make it legal, valid and enforceable.
- 19.9 To the extent permitted by law, no statutory terms (which shall include warranties, conditions or other contractual provisions) or rights, duties or liabilities imposed under the Supply of Goods and Services (Jersey) Law 2009 shall apply to you or us in relation to the Services or this Agreement.
- 19.10 We may freeze your Portfolio if we know or have reasonable grounds to believe that:
- 19.10.1 there is a dispute over the ownership of any of the Assets in the Portfolio;

- 19.10.2 any dispute between joint owners of the Portfolio has arisen;
- 19.10.3 you have died or are incapacitated; or
- 19.10.4 we are required to do so in order to comply with any applicable laws or orders of any competent authority or if the execution of an instruction could reasonably be expected to expose the Bank to civil or criminal prosecution in any jurisdiction.

This means that we will not allow any person to withdraw Assets from your Portfolio, deposit additional monies into the Portfolio (unless we agree) or carry out other transactions until the matter that caused us to freeze the Portfolio has been resolved to our satisfaction (for example, by our being satisfied that the Portfolio is not being used for illegal purposes or that the dispute is settled).

- 19.11 We will not be liable to you or any other person for any loss (including loss of profit), damage, cost or expense arising as a result of our freezing the Portfolio in accordance with clause 19.10.
- 19.12 We may refuse to accept a payment into an account, or make a payment from it, if we reasonably believe that doing so might cause us (or another company in the Lloyds Banking Group) to breach a legal requirement or might expose us (or another company in the Lloyds Banking Group) to action from any government or regulator. We reserve the right to refuse to accept a payment into an account or make a payment from it if, in our absolute discretion, we deem such refusal necessary for legal, regulatory, security, contractual or any other reason which shall be determined by us in our sole discretion. We also reserve the right to reverse or recall any payment into or payment from your account if we have reasonable grounds for believing such payment has been made fraudulently or illegally or otherwise in breach of the Terms and Conditions. We may delay or defer accepting a payment into an account or making a payment from an account whilst we undertake such investigations as we, in our absolute discretion, deem necessary for legal, regulatory, security, contractual or any other reason which shall be determined by us in our sole discretion. We will not be liable for any loss, damage, cost or expense suffered by you as a result of our refusing to accept a payment into an account or to make a payment from an account, or reversing or recalling a payment into an account or a payment from an account, or delaying or deferring acceptance of a payment into an account or making a payment from an account.
- 19.13 We and other members of Lloyds Banking Group may be subject to legislation adopted to implement sanctions and embargos imposed by the international community including the United Kingdom, European Union, United Nations and United States of America. We may decline to accept payment instructions and may refuse to make any payment or take any action in connection with a payment instruction if it would result, or in our reasonable opinion is likely to result, in a breach by us or any other member of Lloyds Banking Group or any of our or their employees of any sanction or embargo whether or not imposed in the United Kingdom, and we will not be liable for any loss (including loss of profit), damage, cost or expense for any such reason. We may disclose to the relevant authorities such information in relation to any instruction or payment as may be required.
- 19.14 The laws of Jersey apply to this Agreement. The Courts of Jersey shall have non-exclusive jurisdiction over any proceedings in connection with any disputes in relation to this Agreement.

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## Important information

### Important information about your personal information

This information is not part of your Terms and Conditions with us.

#### Personal data

##### Who we are

Your information will be held by Lloyds Bank International Limited which is part of the Lloyds Banking Group. More information on the Lloyds Banking Group can be found at [lloydsbankinggroup.com](http://lloydsbankinggroup.com)

##### How we share your information with Group Companies

Your personal information will be shared within the Lloyds Banking Group so that we and any other companies in our Group can look after your relationship with us. By sharing this information it enables us to better understand your needs, run your accounts, and provide products in the efficient way that you expect.

##### Using information for fraud prevention

We will share your personal information with fraud prevention agencies. If false or inaccurate information is provided and fraud is identified, details of this fraud will be passed to these agencies to prevent fraud and money laundering. Further details explaining how information held by the fraud prevention agencies may be used can be obtained by reading the Privacy Statement at [international.lloydsbank.com/privacy](http://international.lloydsbank.com/privacy) or contacting your local branch.

##### Undertaking credit searches

We may obtain information about you from credit reference agencies, fraud prevention agencies, and Group records to check your credit status and identity. The agencies will record our enquiries which may be seen by other companies who make their own credit enquiries. This may affect your ability to obtain credit elsewhere in the near future. We may also use credit scoring.

##### Undertaking credit searches on a joint applicant

When you opened your account(s), your application may have been assessed using credit reference agency records relating to you and anyone with whom you have a joint account or similar financial association. If a joint application has been made and such a link did not already exist then one may have been created. These links will remain until you successfully apply for a 'notice of disassociation' at the credit reference agencies.

If you provided information on behalf of a joint applicant we understand you had their permission to do so and they have agreed that we are authorised to search, link and record information about them at credit reference agencies.

##### Checking your identity

We may ask you to provide physical forms of identity verification when you open your account(s). Alternatively, we may search credit reference agency files in assessing your application(s). The agency also gives us other details and information from the Electoral Register to verify your identity. The agency keeps a record of our search, whether or not your application proceeds. Our search is not seen or used by lenders to assess your ability to obtain credit.

##### How we use your information to contact you about products & services

Lloyds Banking Group companies may use your information to contact you by mail, telephone, email or text message about products and services that may be of interest to you. If you do not wish to receive this information please let us know.

##### Further information

It is important that you understand how the personal information you give us will be used. Therefore, we strongly advise that you read our Privacy Statement, which you can find at [international.lloydsbank.com/privacy](http://international.lloydsbank.com/privacy) or you can ask us for a copy. Please let us know if you have any questions about the use of your personal information.

# Appendix A

## Explanation of underlying investments and associated investment risks

This is the Appendix A referred to in the preceding Terms and Conditions.

Lifestyle Portfolios are discretionary investment portfolios. A discretionary investment portfolio is an investment where a customer (in this case you) employs a manager (in this case Lloyds Bank International Limited) to manage their investments to an agreed mandate. Lifestyle Portfolios are built through investment in collective investment schemes only and the portfolios do not hold direct investments. These collective investment schemes are made up of investments in different asset classes such as equities, bonds, cash and property, amongst others. With all investments there are risks but these differ depending on the type.

This Appendix is split into three sections:

### General

This section explains the general risk associated with investments.

### Collective investment schemes

This section explains the risks specifically associated with collective investment schemes.

### Asset classes

This section explains the type of assets that may be held by the collective investment schemes in your portfolio, as well as the risks that these individual asset classes present.

## General

Past performance of investments should not be seen as an indication of future performance.

It should be remembered that the value of investments and the income from them can go down as well as up. Consequently, and particularly in the case of early encashment (including partial withdrawals), you might not get back the amount originally invested.

Dividends and income levels are not guaranteed and may fluctuate.

You should only invest if you are prepared to hold your investment for a minimum of five years.

The choice of fund management groups outlined in the brochure may not necessarily be those selected for investment within your portfolio.

Our charges may rise in the future which could impact the performance of your investment.

You should be aware that all or most of the protections afforded by the United Kingdom regulatory system do not apply.

### Counterparty risk

Certain transactions that the Portfolios enter into expose them to the risk that the counter-party will not deliver the investment (purchase) or cash (sale) after the Investment Manager has fulfilled its responsibilities. It is the policy of the Investment Manager to buy and sell investments only through approved brokers, or directly with the underlying fund manager.

### Market price risk

Investments in the underlying funds are principally in equities, fixed interest securities, property related assets and bank deposits dependent on each Portfolio's investment policy. The value of these is not fixed (other than bank deposits) and may go down as well as up. This may be the result of a specific factor affecting the value of an individual stock or asset or be caused by general market factors (such as interest rates, government policy or the health of the underlying economy) which could affect the entire portfolio. Each Portfolio will invest in a range of funds in line with its investment objectives and policy. In the case of equity based funds, the nature of the markets in which these funds invest means that the short term returns may be volatile.

### Currency fluctuations

Since foreign exchange rates fluctuate, exchange rate risk exists whenever investments are held in a foreign currency. The essential factors affecting a country's foreign exchange rate are a country's inflation rate, the gap between domestic and foreign interest rates, and the assessment of economic trends, the political situation and safety of the investment. Changes in rates of exchange may cause the value of an investment, and the return from it, to rise as well as fall.

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## Collective investment schemes

Collective investment schemes (commonly known as, and referred to hereafter, as “funds”) pool your money with other investors enabling the fund managers to invest in more securities than would be possible on your own. The wider spread can help reduce the risk to, and the growth of, your money because if one Security performs particularly badly or well, the effect can be offset by the rest of the fund and the impact is minimised.

In addition to the risks associated with specific asset classes there are certain additional risks associated with investment in funds, these are explained below:

### Interest rate and income risk

Each underlying fund receives income from its various investments. The income received by each fund is not fixed in nature. It is derived from the securities held in the portfolio of the underlying fund which may be varied from time to time in accordance with its investment objective and policy.

### Liquidity risk

Each Portfolio's financial assets are considered to be readily realisable. On certain occasions this may not be possible such as at times of high volatility of world stock markets or where a stock exchange is closed or has suspended trading thereby preventing the funds in which the various Portfolios invest from valuing their assets accurately. The Investment Manager manages each Fund's cash to meet its liabilities.

### Foreign currency risk

**Investors:** You will need to consider the implications of investing in a Portfolio with a base currency which is different to your own reference currency. Such investments will be subject to the movement of foreign exchange rates which may cause additional favourable or unfavourable changes in value.

**Funds:** An underlying fund may purchase securities denominated in a currency other than its base currency, and hence take a position in other currencies. A substantial portion of the financial assets of some of the funds could be denominated in currencies other than their base currency with the effect that the balance sheet and each fund's total return can be significantly affected by currency movements. In respect of foreign currency exposure derivative instruments may be utilised for the purpose of reduction of foreign currency risk in order to hedge this exposure back to the base currency of the Fund.

### Dilution levy

Some managers may impose a dilution levy in certain circumstances. A dilution levy is a mechanism to protect existing Shareholders' and potential Shareholders' interests. High levels of buying and selling by investors in Shares may lead to an increase in the underlying dealing costs borne by a Fund. The effect of this is that the value of a Fund may be reduced (or diluted). In order to prevent this dilution effect, the Manager has the discretion to charge a dilution levy on the creation, sale, redemption or repurchase of Shares (including conversions between different classes of Shares). When charged, the dilution levy will be paid into the relevant Fund in order to mitigate the effect of the dilution. When applied the dilution levy will be added to the purchase cost or deducted from the redemption proceeds, as appropriate.

For example the Manager may impose a dilution levy on a Fund in circumstances where:

- a Fund experiences large levels of net purchases (i.e. purchases less redemptions) relative to its size;
- a Fund experiences large levels of net redemptions (i.e. redemptions less purchases) relative to its size;
- the Manager believes that the imposition of a dilution levy is required to safeguard the interests of Shareholders and potential Shareholders.

### Derivatives

In the case of the underlying funds, derivatives will only be used where they accord with the fund's investment objectives and policy. Some funds will only use derivatives for efficient portfolio management, which means that they may not be used independently of investment strategy in respect of the underlying physical assets or for merely speculative purposes. In other funds, such as absolute return funds, derivatives may be used for the purpose of gearing or leveraging or for the purpose of producing, enhancing or generating income.

### Capital risk

For funds which invest in fixed interest securities and where the objective of the underlying fund seeks to provide high or good levels of income, the investment policy which supports this may result in a gradual reduction in the capital value of the underlying fund's shares, except where bond prices are generally rising.

### No participation in management

You will have no ability to participate in the control, management, direction or operation of the affairs of the underlying assets.

The underlying assets of the Portfolio will consist of units in funds and the investment manager will have limited ability to exert any influence or protect its investment. The Portfolios will be significantly reliant on the trustee or custodian of the underlying funds who will oversee all investment and management decisions on behalf of the underlying funds and will also be dependent upon the judgement and ability of (i) the investment advisers to the underlying funds in the provision of their services to the underlying funds and (ii) of the managers of the underlying funds in evaluating the advice given by the investment advisers.

### Stabilisation

Stabilisation enables the market price of a security to be maintained artificially during the period when a new issue of securities is sold to the public. Stabilisation may affect not only the price of a new issue but also the price of other securities relating to it. Some regulators allow stabilisation in order to help counter the fact that, when a new issue comes onto the market for the first time, the price can sometimes drop for a time before buyers are found.

Stabilisation is carried out by a 'stabilisation manager' (normally the firm chiefly responsible for bringing a new issue to market). As long as the stabilising manager follows a strict set of rules, he is entitled to buy back securities that were previously sold to investors or allotted to institutions which have decided not to keep them. The effect of this may be to keep the price at a higher level than it would otherwise be during the period of stabilisation.

The stabilisation rules:

- limit the period when a stabilising manager may stabilise a new issue;
- fix the price at which he may stabilise (in the case of shares and warrants but not bonds); and
- require him to disclose that he may be stabilising but not that he is actually doing so.

The fact that a new issue or a related security is being stabilised is not an indication of the level of interest from investors, nor of the price at which they are prepared to buy the securities.

### Leverage

When a collective investment fund invests in an investment trust it may be exposed to leverage. Investment trusts at times employ strategies which make their shares much more volatile than the underlying investments within the investment trust's portfolio. For example, many investment trusts are permitted to borrow money to fund their investment policies. In extreme cases this could lead to the value of an investment trust being wiped out if there was a sufficiently large fall in the stock market.

## Asset classes

The main asset classes contained within the funds in which the Lifestyle Portfolios will invest and the risks associated with such investments are described in the following section:

### Cash

Investments in cash, also known as deposit based investments, increase in value by the payment of interest. The interest received can be at a fixed or variable rate. They include bank and building society accounts, national savings accounts, other interest paying accounts, as well as cash equivalent investments such as short term commercial paper that may be issued by companies. Traditional cash investments such as bank accounts and national savings accounts generally provide a lower risk place for your money with easy access, but possibly only after a notice period, and generally give lower returns than investments in the other asset classes. Other cash equivalent investments can be used as an alternative to deposits. These investments may be contained within a diversified fund, but present the risk that the counterparty (the company you lend your money to) may fail thus there is a risk of capital loss. This can be particularly true at times of market dislocation.

The cash elements of a portfolio are unlikely to be covered by depositor compensation schemes as the money is deposited under the name of the fund. Funds, generally, will not be protected by such schemes.

Investment in the Lifestyle Portfolios in cash will be made via unit-linked funds.

### Risk factors

The risks with investing in cash are restricted to the financial stability of the deposit provider. The effects of inflation can reduce the buying power of your money.

### Bonds and government securities

Bonds, also known as fixed interest bonds or fixed interest securities, are essentially loans, i.e. an agreement between a borrower and a lender. Bonds are used by companies and governments to borrow money directly from the public. Bonds usually have a fixed term. The issuer of the bond (the company or government) agrees to make fixed payments to the bondholder (the public) at regular intervals during the term of the bond. These payments are called coupon payments. At the end of the term, the issuer of the bond repays the original amount borrowed to the bondholder; this value is known as the par value.

In many ways, these are similar to cash investments in that you deposit your money and you are paid interest, but there are some significant differences:

- The interest rate is fixed.
- Bonds cannot be accessed during the term – they can only be traded by being bought and sold on the stockmarket.
- There is no guarantee that you will receive the agreed coupon or get your initial investment back.
- There are two main types of bonds; those issued by Governments or local authorities (gilts/government debt), and those issued by companies (corporate bonds).

Governments or Companies that issue bonds are given a credit rating. This rating is based on how reliable the issuer will be with regards to paying back the loan. The ratings are issued by agencies such as Standard & Poor's and are split into Investment Grade Bonds and Sub-Investment Grade bonds:

### Investment grade bonds – rating definitions

- AAA An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
- AA An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
- A An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.
- BBB An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

### Sub-investment grade (high yield) – rating definitions

- BB An obligation rated 'BB' is less vulnerable to non-payment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.
- B An obligation rated 'B' is more vulnerable to non-payment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.
- CCC An obligation rated 'CCC' is currently vulnerable to non-payment, and is dependent upon favourable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.
- CC An obligation rated 'CC' is currently highly vulnerable to non-payment.
- C A subordinated debt or preferred stock obligation rated 'C' is currently highly vulnerable to non-payment. The 'C' rating may be used to cover a situation where a bankruptcy petition has been filed or similar action taken, but payments on this obligation are being continued. A 'C' also will be assigned to a preferred stock issue in arrears on dividends or sinking fund payments, but that is currently paying.
- D An obligation rated 'D' is in payment default. The 'D' rating category is used when payments on an obligation are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardised.

### Plus (+) or minus (-)

The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

### Risk factors

There are two main risks that affect bonds: credit risk and interest rate risk.

### Credit risk

The interest, or coupon, rate paid by a bond varies according to the stability of the issuer. The higher the risk to your investment, the more you expect to get in return for taking the risk. If the company is very stable and financially secure, there is a lower risk of the issuer not being able to repay your loan, so the interest paid can be lower. Conversely, if the company is a higher risk, then the interest will be higher to reflect the risk you are taking. In high yield bond funds that invest in sub investment grade bonds, this risk is correspondingly greater and the risk of default higher.

### Interest rate risk

The value of bond funds can alter depending on changes in interest rates. For example when the Bank of England changes interest rates in the UK, bonds will be more or less valuable depending on the direction of the interest rate changes.

### Equities

Equities are investments in the shares of a company which may be listed on a Stock Exchange. Equities are also known as shares, stocks or securities. Once you invest in a company's shares, you become a shareholder. The shareholders of a company are effectively the company's owners and have the right to vote on important matters concerning the company. Equity investments offer a share in the profits of the company or companies in which you are invested. This payment is called a dividend and is usually paid on an annual basis. A dividend is simply a sum of money that a company divides amongst its shareholders. The greater the company's net profit, the larger the dividend is likely to be. Conversely, if the company under achieves or makes a loss, the dividend will be small or you may receive no payment at all.

Whilst investment in equity funds in the Lifestyle Portfolio will be global the higher proportion of the exposure to this area will be in your 'home currency'. The 'home currency' means the currency in which your Portfolios is invested in.

The portfolios may also invest in funds which hold emerging market equities. The term emerging markets is used to describe a nation's business activity in the process of rapid growth and industrialisation.

## Risk factors

The main risks of investing in equities are:

- Income paid by equities is variable and is not guaranteed. If the company does not perform well, it may stop paying dividends.
- If the company produces lower profits than expected, the share value may fall.
- Directly investing in a single company carries a higher risk than investing in an equity fund.
- Equity investment returns are linked to economic growth. If economic conditions are poor, the outlook for equity returns will also be poor.
- Equity prices are linked to many issues, such as political change, war, terrorism, company mergers, etc.
- The performance and value of shares can fluctuate significantly in different sectors or types.
- Equities are the riskiest asset class.

## Emerging markets risk factors

Investments in securities in emerging market countries may be considered to be speculative and may have additional risks from those associated with investing in the securities of a European or US issuer. There may be limited information available to investors, which is publicly available, and generally emerging market issuers are not subject to uniform accounting, auditing and financial standards and requirements like those required of European and US issuers.

You should be aware that the value of a fund's investments in emerging market securities may be adversely affected by changes in the political, economic or social conditions, expropriation, nationalisation, limitation on the removal of funds or assets, controls, tax regulations and other foreign restrictions in emerging market countries. Emerging market securities trade with less frequency and volume than domestic securities and, therefore, may have greater price volatility and lack liquidity. In some emerging market countries there is no legal structure governing private or foreign investment. This may adversely affect a fund's operations and the ability to obtain a judgement against an issuer in an emerging market country.

## Real estate / property

Real estate is regarded as a tangible asset and a good inflation hedge over the long term and by investing through property funds we are able to include exposure within the portfolio at relatively low levels.

Whilst you can invest in Real Estate directly, the Lifestyle Portfolios will invest through a property fund or exchange traded fund. Property funds are investment vehicles which may be used to invest either in real property or in units in property companies or other investment vehicles with a strategy which includes investing in property assets. Property funds usually have investment criteria which will limit investments to particular types of property such as residential or commercial and often limit such investments to particular geographic areas.

## Risk factors

Investing in property funds involves particular risks which are set out below:

The value of an investment in a property fund may depend on the performance of the underlying property (and currency exchange rates where a fund invests overseas). The performance of a property fund may be adversely affected by the impact of general economic and political conditions in the UK and elsewhere, by conditions within the property markets generally or locally. It may also be affected by the particular financial condition of the tenants of the property fund's properties and of other parties doing business with the fund and by changes in interest rates to the extent that this affects any borrowings.

The selection of properties is a key factor in the success of a property fund and it is comparatively difficult to modify a property portfolio over the short term should circumstances change or the selection of properties prove to be unsatisfactory.

A property fund will normally assume all the risks associated with ownership of its property including environmental and third party liability risks. These may potentially give rise to substantial claims.

The value of a property is generally a matter of a valuer's opinion and the amount realised on the sale of the property may be less than the valuation given to the property by the valuer. This means that quoted prices of holdings in a property fund may not always be a reliable indication of what the investor will receive on redemption.

The manager of a property fund may be required to realise properties to fund redemption requests and this may entail disposals in unfavourable market conditions. Investments in property funds can be difficult to sell which means we may not be able to redeem investments when we would like to. Property funds are not usually listed on a stock exchange and holdings in them can often only be redeemed at infrequent intervals (typically three months). In addition, the manager often has the right to defer redemptions for longer periods, which may exceed a year, in order for it to make property disposals. This means that you may not be able to realise your investment promptly.

## Absolute return funds

Absolute return funds seek to achieve a positive return in both rising and falling market. These funds invest in diversified portfolios where the underlying assets are commonly related to fixed income, equities, commodities, currencies or other asset classes. Exposure may be obtained through investment in securities or derivative instruments, through which the funds may gain long or short exposure to the underlying investments. The investment objective of these funds is to offer an investment return exceeding cash return, consistent with capital preservation and prudent investment management.

## Risk factors

Absolute return bond funds invest in cash and securities and absolute return equity funds invest mainly in equities with the aim of achieving a total positive return in all market conditions. However, this may not always be the case. The use of derivatives may at times lead to increased price volatility. Therefore, you should be prepared to accept the risks associated with these investments as described within this appendix and be aware that although they seek to always provide positive returns, your capital is not guaranteed.

## 'Others'

To enhance the return or reduce the risk, the portfolios can benefit from further diversification outside the reference asset allocation (equities, bonds, absolute return funds and cash). Under this category, investment is made in specific sectors or themes that cannot be classified under the traditional asset classes. The most common type of asset class that will feature under this category is commodities. Investment is made into this sector through the use of either an exchange traded or collective fund.

## Risk factors

Some of the assets which may be purchased within the category could be less liquid, i.e. they could be more difficult to sell in volatile markets. As a result it may not always be possible to liquidate holdings in funds in this category in a short time period.

## Exchange Traded Funds

An Exchange Traded Fund (ETF) is an open ended collective investment which represents a basket of securities that are grouped together and trade as one individual security, tracking a particular benchmark or index. The market price will generally be directly related to the value of the underlying assets (Net Asset Value or NAV). If new investors wish to participate then further shares are created.

## Risk factors

Because an ETF is aligned to all the constituent assets which make up an index this will reduce the opportunity to outperform an index, which would otherwise be possible with an actively managed fund.

The costs and charges associated with the running of a fund will mean that investing through an ETF will introduce a lag to index performance over time.

Equity-based exchange traded funds are subject to risks similar to those of stocks; fixed income-based ETFs are subject to risks similar to those of bonds, as such investment returns will fluctuate and are subject to market volatility.

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