

Annuity Protection Index Fund for IBM

IN A NUTSHELL

- Aims to capture market returns
- Helps safeguard part or all of your Retirement Account in anticipation of buying an annuity
- 70% invested in the Over 5Year Index-Linked Gilts Index Fund
- 30% invested in the Over 15Year Gilts Index Fund
- Likely to be of specific interest to members nearing their pension date

GLOSSARY

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

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

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

Index A measure of performance of a market

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

Index-Linked Inflation-linked, that is directly related to movements in the Retail Price Index

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

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

Long-term At least 15 years and longer

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

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

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

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

WHY LEGAL & GENERAL INVESTMENT MANAGEMENT?

Legal & General Investment Management is one of the largest investment managers in the UK, with more than £347 billion* under management and over 3,300* company pension scheme clients. We offer a wide range of investment products designed to meet the needs of pension schemes and their members, all managed by dedicated fund management teams and supported by award winning client service.

*Data as at 30 September 2011.

INVESTING FOR PROTECTION

The Annuity Protection Index Fund aims to reflect the way that annuities are priced which reduces the impact on your pension if your retirement is at a time of high inflation. It invests 70% in the Over 5Year Index-Linked Gilts Index Fund and 30% in the Over 15Year Gilts Index Fund.

Different investment classes have different levels of volatility and risk which means that the levels of return vary greatly. The suitability of one investment class over another therefore changes throughout your working life. This Fund is likely to be of specific interest to members who are nearing their pension date.

Gilts and index-linked gilts pay a fixed rate of interest, which is linked to inflation for index-linked gilts, and have the security of being issued and backed by the UK Government. They offer greater security than equities because their price and therefore their value tends to be less volatile. However, although gilt prices are less volatile their capital value is linked to interest rates and will fall when interest rates are rising and rise when interest rates fall.

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

Mid to long-term investment horizons

If you have a mid to long-term investment horizon you will usually be aiming to maximise growth in your pension account and so will probably be investing mainly in equities.

As you near your pension date

However, as you near your pension date, you may want to reduce the volatility of the value of your pension account. You can do this by moving part or all of your pension account out of equities and into bonds. You will also be thinking about buying an annuity and you may want to ensure that the value of your pension account starts to move in-line with the cost of buying an annuity.

Annuity providers use bonds to back their annuities. Adopting the same investment approach, will therefore provide some protection against changes in annuity prices as you get near to your pension date.

MARKET HIGHLIGHTS OVER 12 MONTHS TO 30 SEPTEMBER 2011

The global economic recovery has faced some significant challenges during the past 12 months. Consumer sentiment, particularly in the major economies, has been weak as high levels of unemployment, rising food and energy costs and credit constraints have curtailed spending. Significantly, the emerging economies have remained the principal driving force of global economic growth, as countries such as China, India and Brazil continue to grow far more rapidly than the major developed economies. Increasing competition for resources was the key factor behind the strength of commodity markets for much of the review period, triggering a rise in inflationary pressures although commodity prices have softened of late as the global growth outlook has deteriorated. Governments in the G7 countries have to varying degrees tried to reduce their budget deficits and implement austerity programmes, while simultaneously leaving interest rates at historically low levels, accompanied in the US and the UK by asset purchases (quantitative easing) aimed at reviving growth. However, the recovery has been lacklustre with the recent weakening in business and consumer confidence signalling a significant risk of a 'double-dip' recession.

In recent months, equity markets have become increasingly volatile. Two adverse developments have led to a broad-based loss of confidence and a bout of risk aversion. First, public squabbling around the raising of the US debt-ceiling culminated in a US debt downgrade by S&P. Second the European debt crisis has intensified with both Italy and Spain the recent focal points of concern. Even before these events, global growth appeared to have slowed quite sharply in the second quarter. This was partly due to some temporary shocks, most notably supply disruptions following the Japanese earthquake and the squeeze on real incomes from higher oil prices, exacerbated by political unrest in the Middle East, but also due to less growth momentum than previously anticipated. Some improvement in second half growth is expected, but leading indicators suggest any rebound is likely to be modest at best.

Encouragingly, quarterly earnings announcements have generally matched or exceeded expectations as the corporate sector is relatively healthy, with companies across a broad range of industries taking the opportunity to reduce debt levels.

As the period drew to a close, the principal concern for bond investors became the European sovereign debt crisis, focused on the southern European members of the single currency bloc. Although Greece is still at risk of defaulting on its debt obligations, the spotlight has been focused of late on Italy and Spain, with government debt levels in these latter economies coming under harsh scrutiny by the financial markets. Both the Italian and Spanish bond markets were subject to heavy selling pressure with the European Central Bank intervening to buy up both countries' sovereign debt in attempt to restore confidence. However concerns remain that unless the European Financial Stability Facility, effectively a contingency fund, can be substantially increased, the authorities will lack sufficient fire power to contain the crisis. Fears of contagion risk from the sovereign debt crisis have focused on the banking sector, where the ECB recently announced a new liquidity operation to alleviate short-term funding pressures. Significantly, government bond yields in the US, Germany have fallen sharply as investors reduced the risk profile of their portfolios. This has also been reflected in the credit markets, where corporate bonds in more cyclical sectors and subordinated financial securities have sold off sharply.

IMPORTANT INFORMATION

The views expressed in this fact sheet are those of Legal & General Investment Management who may or may not have acted upon them. This document should not be taken as an invitation to deal in Legal & General investments or any of the stated stock markets.

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PERFORMANCE TO 30 SEPTEMBER 2011

	Fund %	Benchmark %
June 2011 - Sept 2011	9.7	9.7
Sept 2010 - Sept 2011	13.0	12.9
Sept 2009 - Sept 2010	9.2	9.0
Sept 2008 - Sept 2009	6.8	6.6
Sept 2007 - Sept 2008	8.7	8.7
Sept 2006 - Sept 2007	0.8	0.8

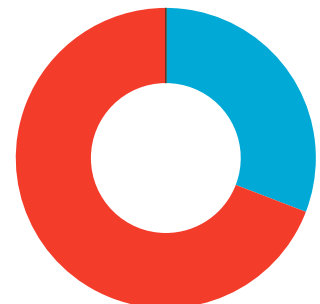
PER ANNUM TO 30 SEPTEMBER 2011

	Fund %	Benchmark %
3 years	9.6	9.5
5 years	7.6	7.5

Past performance is not a guide to the future.

Returns are calculated on the basis of closing middle-market prices. Fund Net returns are after the deduction of our standard investment management fees (please refer to your scheme's literature to determine the fee rate you are paying).

FUND ASSET ALLOCATION AS AT 30 SEPTEMBER 2011



Over 15 Year Fixed Interest Gilts	30.8%
Over 5 Year Index-Linked Gilts	69.2%

The source of all information is LGIM unless otherwise stated.