

## CASH FUND

Data to 31 March 2010

### In a Nutshell

- Security - investments issued by the UK Government
- Liquidity - high quality UK Treasury bills are liquid instruments

### Glossary

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

**Counterparties** The parties on either side of a transaction

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

**Debt Management Office (DMO)** The DMO is an agency of HM Treasury and is responsible for carrying out the Government's debt management policy

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

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

**Return** In this case, the income derived from cash deposits and other short-term investments

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

**Short-term investments** Cash or bonds with a short "life-span" of up to one year are considered to be short-term investments

**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 £330 billion\* under management and over 3,000\* company pension scheme clients. We offer a wide range of investment products designed to meet the needs of pension schemes and their members, all managed by dedicated fund management teams and supported by award winning client service.

### Investing for Short-Term Security?

A treasury bill is a short term (less than one year) government bond that does not pay interest. They are instead issued at a discount to their face value.

The Fund invests in Treasury Bills issued by the UK Government. Up to 10% of the Fund may be invested in short term (up to 7 days) cash deposits typically with the Debt Management Office (DMO) or high quality institutions. The Fund is likely to be of specific interest to investors who want to provide for a cash sum on their pension date. Unlike equities, its capital value is not affected by changes in stock market levels. The Cash Fund, therefore, provides protection against stock market falls but sacrifices the potential for long-term growth from equity type investments.

Different investment classes have different risk and return characteristics. Equities, for example, have produced higher levels of return in the long term, but are subject to considerable volatility in the short term. The suitability of one investment class over another changes throughout your working life as your tolerance for the volatility in your capital value changes.

Although investing in the Cash Fund can be attractive in times of heightened market uncertainty it is generally not considered a suitable long-term investment.

#### As you near your pension date

If you wish to take a cash sum at your pension date, you may wish to start allocating a proportion of your pension account in a low risk, readily realisable investment such as the Cash Fund. As you approach this date, moving your money out of more volatile investments into this Fund can help provide for your final sum.

By switching part of your pension account into this Fund shortly before your pension date, you may be able to lock in the capital value, and protect your fund from the volatility of financial markets.

\*Data as at 31 March 2010.

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## CASH FUND

### PERFORMANCE

	FUND GROSS %	INDEX %
31 Dec 2009 - 31 Mar 2010	0.1	0.1
31 Mar 2009 - 31 Mar 2010	0.5	0.4

As at 1 January 2009, unit price performance is Gross of management fees.

Past performance is not a guide to the future.

Returns are calculated on the basis of closing middle-market prices. Fund Gross returns are before the deduction of fees.

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

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

The extraordinary measures which policy makers have undertaken during the past twelve months have significantly affected the performance of cash instruments and government bond markets. While an improving economic environment typically places upward pressure on interest rates, the sheer scale of monetary stimulus programmes has kept interest rates artificially low. In the US, the Federal Reserve completed \$300bn in purchases of US Treasuries and the Bank of England (BOE) completed close to £200bn of quantitative easing almost entirely taken up by gilt purchases.

The weight of the extraordinary measures undertaken proved effective. Financial markets rallied through the second half of 2009 as signs of life began to return to developed economies. However, equity markets remained highly volatile as investors debated the timing and strength of the economic recovery. The economic data and news from the corporate sector have continued to be broadly reassuring during the first three months of 2010 and the global economic recovery remains appears 'on track', albeit at a subdued pace. However, a number of concerns have begun to appear towards the end of the reporting period. High government debt levels in much of the developed world have been brought into focus as a result of fears surrounding the ability of a number of Southern European economies (particularly Greece, Spain and Portugal) to service their ever expanding deficits. While the global economy has emerged from recession and growth rates are strong in the emerging economies, unemployment remains high in many developed nations and as policy makers begin to unwind their supportive measures equity markets may need to begin to factor in a more subdued global economic climate.

### Important Information

Past performance is not a guide to the future. 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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