

Investing with confidence

Market volatility can be an unnerving experience for all investors. This leaflet considers the investment implications and explains how our investment process is designed to give you confidence in the investments you have made in our fund range. We also look at a number of basic investment principles that should be considered during uncertain market conditions.

Getting the basics right

Investing in shares and bonds is seldom a smooth ride. The impact of the global recession and the banking crisis has clearly demonstrated this. Markets have recently experienced a period of high volatility which, in some cases, has resulted in significant short-term losses for investors. Yet, history has shown that following a long-term investment approach and remaining invested when markets fall, has generally seen long-term investors reap the benefits when markets recover.

A good long-term investment strategy requires two important decisions.

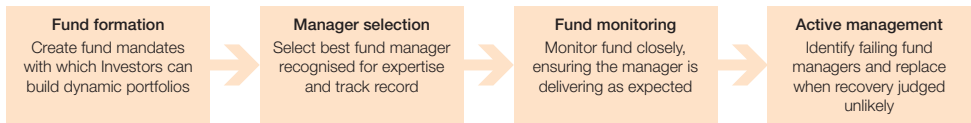
1. To ensure that the investments you have chosen (shares, bonds and cash, or more likely a mixture of all three) are appropriate to meet your own investment objectives. Your Financial Adviser can help you decide on the right mix of investments for you.

2. To ensure that those you trust with your money have the necessary skills to invest it wisely. There are a large number of fund managers to choose from, not all of whom can demonstrate that they can meet the performance targets that are promised. For this reason, we have developed a highly robust investment process, designed to select the most suitable fund managers to manage your investments, and give you increased confidence that your long-term investment objectives can be achieved.

A process to trust

Our rigorous and disciplined investment process is designed to give you clarity around your investments and ensure that they are performing as expected through careful monitoring. The way we manage our Clerical Medical (CM) fund range clearly illustrates the strength of our four-stage investment process.

The Clerical Medical investment process



The four key elements explained:

1. Creating funds with clear objectives

All CM Funds are given a transparent mandate which clearly defines what the fund may invest in, the performance objective and benchmark by which it will be measured, as well as the amount of risk the fund manager can take in order to meet the performance target. This gives you a clear understanding of the type of investment you are making. There are a wide range of funds to invest in, giving you sufficient choice to help meet your individual investment objectives and cater for the amount of risk you are willing to take.

2. Choosing the best fund manager

Through careful analysis and a rigorous selection process we look to find the best fund managers available to us to manage each fund against the criteria we have set. We not only look at their past performance, but analyse how they invest and their approach to risk, to see whether they are likely to continue to deliver in all market conditions and consistently meet your expectations.

3. Monitoring the funds

Once the fund manager has been chosen, our work continues. Each CM Fund is monitored on a continual basis to ensure it is delivering as expected. We not only measure the performance but analyse the fund manager's decisions behind the numbers. We look carefully at the risks being taken to evaluate whether they are consistent with the objectives of the fund.

We meet with the fund manager face-to-face at least every six months to gain an even deeper insight into how the funds are being looked after.

4. Active management

Despite our best endeavours, it would be unrealistic to expect that all the fund managers will succeed all of the time. Our process will therefore identify funds which are consistently not meeting performance expectations, or where the investment approach becomes inconsistent with a fund's objectives. In these instances we will interview the fund manager, and where we believe that recovery is unlikely, we will replace them.

Our investment process helps give you the assurance that your investments are being managed by the most suitable fund managers available to us, and that they are continually monitored on your behalf to ensure that they are performing as expected.

We've put in place a transparent communications framework which keeps you and your adviser up-to-date and aware of the issues affecting your investments. We produce factsheets for all our funds, as well as a comprehensive set of reports on the CM Funds. These are available from your adviser or on our website www.clericalmedical.co.uk/Business/FundsPrices/FundsPrices.asp

Our panel of experts

Our investment process is controlled and managed by the Investment Committee, a collection of highly experienced individuals from the business and the wider investment industry. They bring a depth of experience and expertise ideally suited to oversee our investment framework, and make appropriate decisions when required.

While the Investment Committee cannot guarantee future performance, its strong analytical framework, insightful interaction with the fund managers and the ability to replace failing fund managers when necessary, all help to ensure that the funds that you have selected are performing as you expect them to.

Lessons from experience

One of the most important investment lessons we have learnt over nearly 200 years of investing is how vital it is to remember the basic principles of investment when things are at their toughest and markets at their most volatile. Three of the most important basic principles are:

- Spread your risk – Spreading your money across different types of investments such as bonds, shares and cash is known as diversifying. Diversifying offers the potential to reduce risk and increase returns. We offer a range of funds that allow you to do this easily and effectively. Your Financial Adviser can help you decide on the mix of investments appropriate to your own objectives.
- Hold your nerve – While sharp falls in the value of your investments are understandably unsettling and upsetting, selling in such circumstances has rarely been the right thing to do.
- Invest for the long term – According to the respected Barclays Equity Gilt Study, investors in shares have a 92% chance of achieving a higher return than they would have received from a bank deposit account, if they stay invested for 10 years. That probability increases to 99% if invested for 18 years, but shrinks to only 67% if the investment is only for two years.
* Source: Barclays Equity Gilt Study. Basis: annual total return figures to 31.12.2008.

Hopefully these investment principles will be helpful to you when considering your own investment strategy. If you'd like more useful information about investing in uncertain times please visit our website www.clericalmedical.co.uk and view the following guides:

- Are shares still worth buying?
- Should I wait to invest?
- Where should I invest?
- Should I stop investing?
- Should I worry?

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It is natural to be concerned about your investments when the outlook for markets and the economy become uncertain. But periods of significant market volatility are nothing new to us at Clerical Medical, and we have weathered many storms, from the deep depression of the 1930s to the more recent dot-com crash at the turn of this century.

By investing with Clerical Medical, you have the depth and experience of our Investment Committee on your side. The strength of their tried and tested investment process ensures that your money is invested responsibly, and monitored carefully, so that your longer-term investment objectives can be achieved.

The value of an investment can go up and down as a result of market movements; you may get less than you invested. Past performance is not a reliable indicator of future performance.

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Authorised and regulated by the Financial Services Authority.

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