



**The Protected Asset  
TEP Fund Plc**

**The World's Largest and  
Most Successful TEP Fund**

# The Protected Asset TEP Fund Plc

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## Key Features – Overview

### An Open Ended Fund for Experienced Investors

The Fund is an Open Ended Investment Company incorporated in the Isle of Man and administered and managed by Abacus Financial Services (formerly Price Waterhouse Coopers Trust Co) with the Royal Bank of Scotland International acting as Custodian and audited by Deloitte & Touche.

### Capital Guarantees

The Fund invests in Traded Endowment Policies (TEPs) which have in built capital guarantees secured by each policy's sum assured and the bonuses earned to date. As premiums are maintained, these capital guarantees can neither be taken away nor reduced. In most cases the guarantees are considerably greater than the price paid for each policy (Please refer to 'Capital Security' on page 4).

### Low Costs

By virtue of its streamlined structure and the attractive terms negotiated with its Administrator and Custodian, the Fund aims to keep running costs to an absolute minimum. This practice benefits the returns that investors achieve.

### Currency Options

The Fund offers three currency classes; Sterling, US Dollar and Euro.



### Single Price

The Fund has a single dealing price so that neither buyers nor sellers are disadvantaged.

### Enhanced performance

The Fund will seek to enhance returns by controlled low-level gearing having negotiated exceptionally competitive bank finance both to pay premiums and to increase the size of its TEP investment portfolio. For examples of the Fund's performance since inception please refer to the graphs on page 2.

## Capital Growth and Security

The Fund invests in the best quality Traded Endowment Policies (TEPs) available. These policies are issued by the largest life offices with combined assets of over £1086bn.

The individual policies purchased contain guarantees in the form of the initial sums assured and bonuses declared through the terms of the policies. Once bonuses have been declared they cannot be removed. It is anticipated that policies purchased for the Fund will have guarantees greater than the sum paid.

## Low Costs and Single Pricing

The Fund has negotiated very competitive terms from its Custodian and Administrator facilitating low management and administration costs.

To ensure that neither buyers nor sellers are penalised, the Fund has no bid-offer spread.

## Currency Classes

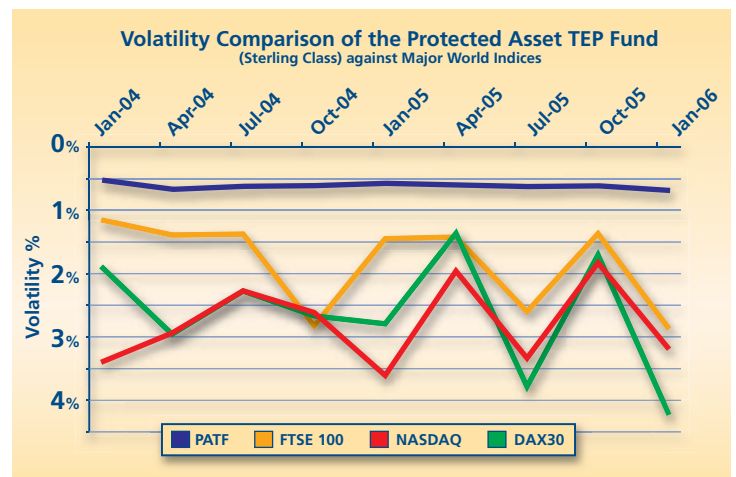
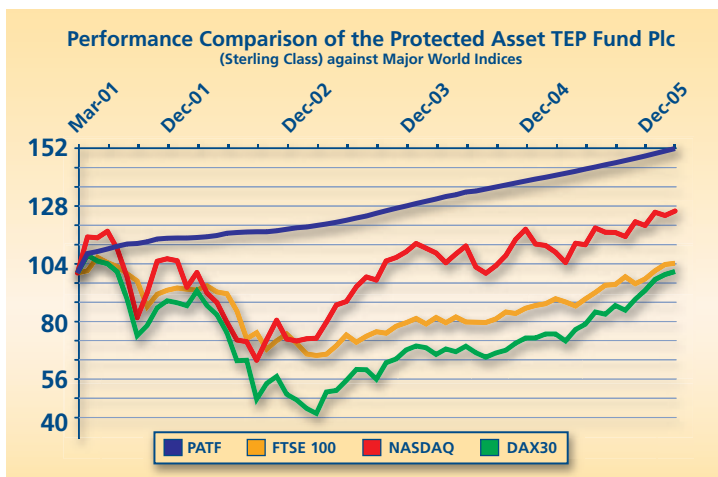
Investors can access the Fund in Sterling, Euros and US Dollars. The Fund seeks to protect Euro and US Dollar investors from adverse currency movements. Hedging facilities are transacted through Allied Irish Bank which offers competitive spreads on hedging instruments. JC Rathbone Associates Ltd (JCRA) are appointed as the currency hedging advisor to the Fund. JCRA has developed since 1989 into the largest foreign exchange exposure consultancy company in the UK and advise on the most effective mechanism to hedge exposure.

## Professional Management and Attractive Terms

The Fund has a board of professional Directors with a wide range of commercial experience together with specific specialist expertise. The Fund Administrator is Abacus Financial Services Limited (formerly part of Price Waterhouse Coopers). The Custodian is RBSI Trustee Services (Guernsey) Limited and the Auditors are Deloitte & Touche.

## Risk v Reward

The two graphs below illustrate the Fund's performance compared to various stock market indices and the low volatility of the Fund



# and Most Successful TEP Fund

## Enhanced Performance

The Fund will seek to enhance the performance of the Fund by utilising controlled low levels of competitively priced bank finance to pay future TEP premiums and to increase the size of the TEP portfolio purchased. The Royal Bank of Scotland has provided the Fund with very attractive facilities enabling the full investment of monies into TEPs rather than leaving invested funds in low interest earning deposit accounts. The Fund is able to increase investor performance by arbitraging the difference between the lower levels of interest charged and the higher potential investment returns.

## With-Profit Endowment Policies

With-profit endowment policies are investment based insurance products that are very well established within the UK personal savings market. They are issued by UK life offices whose total assets exceed £1086bn.

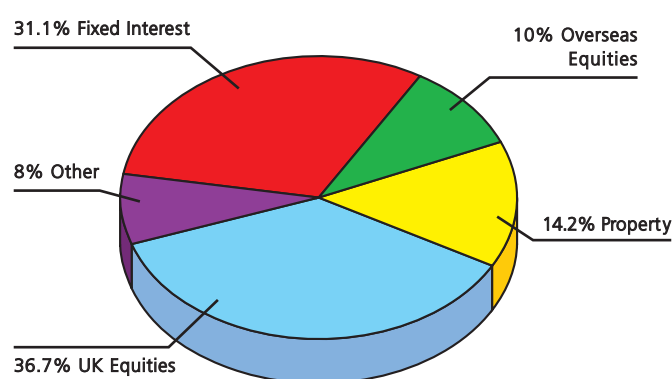
TEPs provide a guaranteed return on the initial sum assured and pay annual bonuses, which once declared cannot be removed. At the maturity of a policy a further bonus is usually paid. In return the policyholder pays regular premiums to the insurance company for both life cover and an undertaking from the life company to pay a lump sum when the policy matures.

The sum assured and declared bonuses are guaranteed by the life company whose assets and liabilities are monitored by the United Kingdom Financial Services Regulator, the FSA.

## Life Office Assets

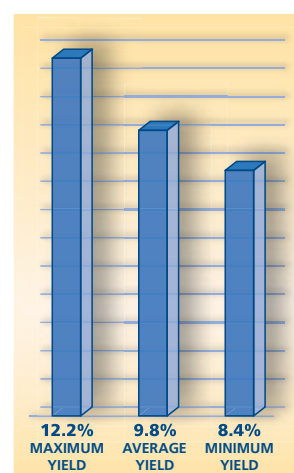
The life offices invest in diversified portfolios of investments that typically comprise Treasury Bonds, UK and overseas equities, property and other investments. The chart below shows the typical distribution of life office assets as at 1st January 2006.

Life Office Allocation 2006 Source: Money Management April 2006



## Life Office Performance

Whilst in past years many life offices have reduced their bonuses as a result of lower global



Source: Money Management November 2005

investment performance, the resulting payments have produced returns which are still higher than other alternative low risk investments such as government issued gilts. The table adjacent illustrates the average returns achieved on 25 year term policies as at the 1st August 2005.

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## Investment Policy

The Fund's investment policy is to achieve above average capital growth with a low risk asset by creating and actively managing a carefully structured portfolio of TEPs.

The Fund invests in TEPs issued by well established companies, maturing at the longer end of the market which can represent better investment value.

The Fund has secured the right to acquire policies from its Policy Provider on terms which are usually significantly more favourable than those available to individual purchasers.

The Fund use competitively priced bank finance to increase the portfolio size, to fund policy premiums and to provide a liquidity reserve. This approach avoids the need to hold a proportion of subscriptions on deposit at rates which are below returns achievable on monies invested in policies.

The Fund invests in policies whose in-built guarantees, consisting of the sum assured and attaching bonuses, will typically be greater than the prices paid.

## Capital Security

As described earlier the TEPs purchased have the benefit of capital guarantees contained in the sums assured and the attaching bonuses. Once these have been declared, and as long as premiums continue to be paid, they cannot be withdrawn.

The illustration below highlights the comparison between the price paid for a sample portfolio and the capital guarantees contained therein. The guaranteed sum is approximately 30% greater than the purchase price.

Comparison of the price paid to the guaranteed sum



Source: AAP Analysis of 12,354 policies comparing the price paid to the "guaranteed" sum contained within the policies.

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## Traded Endowment Policies

Traded Endowment Policies (TEPs) are with-profit endowment policies that are bought and sold by policyholders, investors and market makers. Most policies are originally taken out for 25 years, but the majority of policyholders do not wait the full term; instead, for a variety of reasons, they surrender their policies back to the insurance company prior to the maturity date. It is estimated that over £10bn of policies are surrendered.

In many cases, the surrender values offered by insurance companies are far less than the full asset

value of the policies and consequently investors are keen to buy TEP Funds to form part of their investment portfolios. TEP market makers pay more for suitable policies than the issuing life funds, in order to sell them on to investors. Most TEPs available for purchase will have between 5 and 20 years left to run.

An original policyholder gives up all rights to any maturity proceeds when the policy is assigned, although it is their life that is still assured. If the original policyholder dies, all the policy proceeds are paid to the new investor including the sum assured, all declared bonuses and usually an additional terminal bonus. There is however actuarially only a small chance of an early policy claim.

The Fund through its Policy Administrator will seek to ensure that, on the death of an original life assured, a claim is made to the respective life office and the death benefit is passed to the Fund. An early death claim may marginally improve returns to the Fund.

### **The Protected Asset TEP Fund Plc**

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