Scottish Equitable International

For financial advisers only

Moving out of cash – options for you and your clients

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Scottish Equitable International

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or get in touch with your usual AEGON contact

In the current financial and economic climate, your clients may be looking at cash as a safe home for their money – but returns can be low. To meet long-term objectives, your clients need an effective investment strategy to achieve strong returns which may not be possible through cash investments.

This guide shows how you could advise your clients on the possible ways out of cash investments.

Investment strategy – From cash to where?

Safety in cash?
The unprecedented events of recent months have made many investors hugely wary of investing in the stock market and more concerned than ever when it comes to choosing a suitable home for their money. In such a climate, you and your clients could be attracted to cash as a way of reducing exposure to risk. But, with interest rates at an all-time low, you may also be looking for alternatives to generate better returns than cash can offer.

With a good programme to manage the cash investment cycle effectively, you can keep the risks relatively low but achieve attractive returns for your clients. There are some great funds available at the moment to help this transition – we'll cover these shortly.

The cash journey
The illustration overleaf shows a range of options to investors and how such a strategy can work.

Please note, this is not a prescribed path but rather an outline of various options to consider. We've arranged them in order of risk.

Depending on your client's attitude to risk, they could move from phase 1 through to phase 4 in a series of steps, over a period of time. Alternatively, they could make the jump from phase 1 to phase 4, or move back and forth between phases depending on their individual investment goals.

Every client is different and you may have ideas on the best approach in relation to their current circumstances, and the type of investments they hold.

Please bear in mind that what your client gets back can't be guaranteed and depends on the performance of the assets and funds that you and your client choose. Investment performance may go down as well as up. We don't assess the suitability or the reliability of these investments.

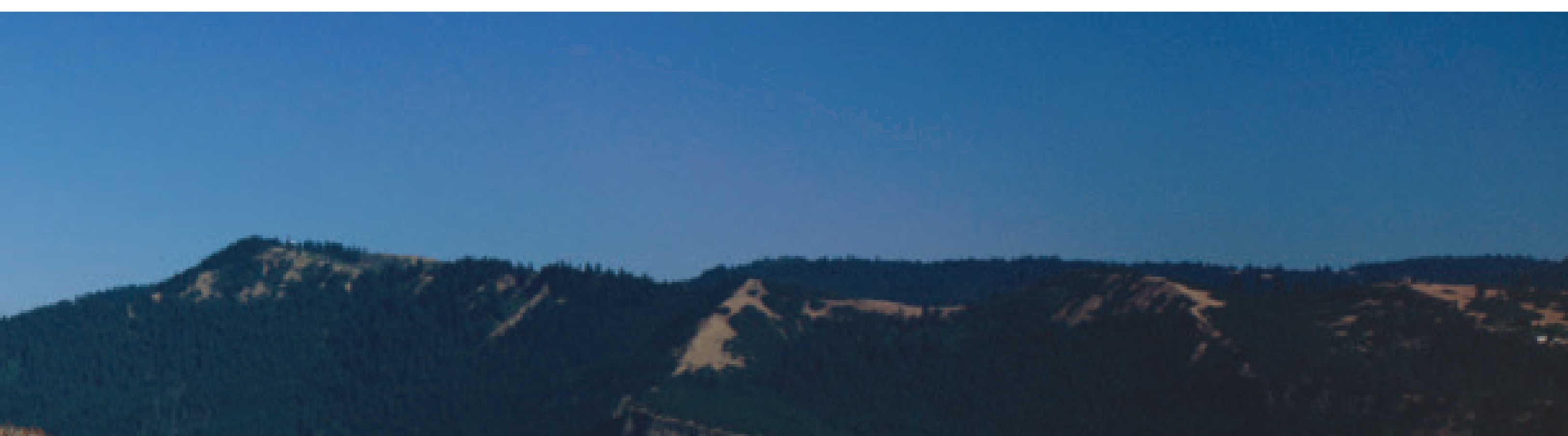
The risk factor
Most investment conversations start with an assessment of the client's goals and their attitude to risk. Recently, this attitude may have changed. Many investors have shifted from being risk averse to loss averse. You may now be helping your clients re-evaluate their views. You can find details of this in our *What makes an investor tick?* sales aid.

A definition
We refer to the term 'risk' throughout this brochure. As risk can be a subjective topic, it's worth clarifying what we mean by this. We categorise risk in relation to other funds in our fund range. We're not comparing against industry benchmarks, nor are we implying risk against the possibility of defaulting. We review risk ratings regularly so they may change.

Phase 1	Phase 2	Phase 3	Phase 4
Cash investment, eg: ■ fixed-term deposits ■ bank or building society savings accounts ■ other cash accounts	Drip feed or move all cash into lower-risk fund options, such as short-term bonds	Adjust fund choice Change investment asset mix	Consider higher-risk, higher potential reward options

This represents a range of options to cash investors and we'll look at each phase in more detail.

You may also want to consider other investment options in addition to those shown above. Please see our 'Alternative investments' section on page 10 for further details.



Phase 1

The immediate attraction of cash

In volatile conditions, investors are drawn to short-term cash deposits for reasons such as:

- **fear** – of losing money in the markets
- **tactics** – wanting to find a safe haven until better prospects are available
- **comfort** – they're only ever going to be happy to invest in deposit accounts

You may have clients in each of these categories.

Benefits of deposit accounts

- It's a way of sheltering money from any exposure to risky market conditions.
- There's a lower risk to capital compared with other types of investments.
- Clients may also have access to higher deposit rates than on the 'high street'.
- In an offshore bond, clients enjoy added tax benefits and gross rates.
- Although some cash investments may require the client to be invested for a fixed period (for example a one-year fixed term), some cash offerings can also allow them to react quickly when they need access to their funds.

We offer a range of options for cash investment, including our panel of fixed-term deposits with high rates of interest, and our UK Cash fund, which carries minimal risk and a yearly disclosure charge of only 0.50%.

Why move from cash?

Deposit accounts are great short-term solutions in volatile market conditions. However, growth potential is limited to reinvested interest, meaning they're not going to offer strong growth over the long term. Your clients need to be invested in other asset types to give them good growth opportunities over the longer term. So you and they may want to consider the options in phase 2.

Phase 2

Looking for modest growth

When deposit rate terms end, you may choose to either drip feed or move completely out of cash.

Moving out of cash and into short-term bonds, or into funds at the lower-risk end of the spectrum, should give clients a chance of a better return on their investment without taking huge risks. For example, fixed interest is a sensible starting point for clients who don't want a reduction in their income from their capital.

A popular choice

In a recent survey, 83% of advisers said they would be recommending corporate bond investments for their clients this year. The survey was conducted among 1,430 advisers by Gartmore, M&G, Newton and Schroders at their Joint Investment Forum event in January 2009.

Possible options for your clients

The following funds are actively managed by AEGON Asset Management:

Short-Term Bond fund

This is a low-risk fund that invests in a range of gilts and corporate bonds, designed to provide better returns than cash or deposit accounts over the medium to long term. It's well suited to cautious investors and those who want to take a cautious approach in the short term while markets are very volatile.

UK Corporate Bond fund

The fund aims to maximise total return income plus capital by investing in a wide range of sterling-denominated investment grade corporate bonds of all durations.

UK Government Bond fund

This fund aims to provide a return in excess of the FTSE UK Gilts All Stock Index by investing in UK government securities (gilts) of all durations and it may invest in cash.

We have a large range of fixed interest funds, including corporate and government bond funds and those investing in a mix of both.

Please note your clients may have to pay additional charges for some of these funds.

Taking more risk for greater potential reward

- Select Distribution fund
- Select Reserve fund
- UK Fixed Interest fund
- 50/50 Cautious Managed Collection

These below average risk funds aim to provide steady long-term growth. They look to achieve this in various ways:

- **The Select Distribution fund**
  This is an actively managed fund which aims to outperform its benchmark and produce an attractive return. It also aims to have less fluctuation in value than the sector average. It does this by investing in equities, fixed interest securities, property and cash. It carries a 'below average' level of risk and could be a good option for your clients in the current environment.

- **The Select Reserve fund** invests in cash, property and fixed interest stocks and aims to produce a return that is higher than cash, in the longer term, whilst avoiding excessive fluctuation in value. It is intended for investors who are nervous about exposing their savings to the equity markets and would prefer a 'lower risk' vehicle.

- **The UK Fixed Interest fund** invests in less risky assets, such as fixed interest and cash, rather than the more volatile option of equities.

50/50 Cautious Managed Collection

These funds give investors the opportunity to invest in a blend of lower-risk fixed interest securities and higher-risk equities that suits their own attitude to risk. This Collection invests 50% in our UK Fixed Interest fund and 50% in our External Stockmarket Collection. The UK Fixed Interest fund aims to provide consistent long-term returns by investing in conventional gilts and high-quality corporate bonds of all durations, issued by UK companies. It may also invest in cash from time to time. The fund is actively managed by AEGON Asset Management, part of the AEGON Group. The External Stockmarket Collection invests in a mix of the stockmarket managed funds from, currently, Baillie Gifford, Invesco Perpetual, Lazard and GLG, whose funds form part of our flexible managed range.

If your client is looking for greater potential returns, you could look at the phase 3 options.

Phase 3

Stretching investment potential

The funds listed here don't aim to expose investors to excessive degrees of risk but can still potentially offer good levels of growth or simply steadier, more predictable returns with lower volatility than pure equity funds. Many of these options are actively managed, meaning the fund managers decide what to invest in, where to invest and when – so you and your clients don't have to.

Although risk and reward traditionally go hand in hand, lower-risk portfolios with limited equity content, such as the options here, can also deliver strong results. What's more, we make sure there is appropriate governance where other parties don't. For example, we regularly monitor these funds to make sure they're investing where they should be – in line with their aims and objectives.

Possible options for your clients

Scottish Equitable International BlackRock UK Absolute Alpha

The fund aims to achieve a positive return year on year by investing primarily in a portfolio of UK equities and UK equity-related securities, including derivatives. From time to time the fund may also invest in cash and related money market instruments (short-term, relatively low-risk forms of debt like permitted deposits).

The fund has the freedom to employ a number of investment strategies and as a result isn't managed against any UK equity index.

Please note, the derivative techniques used in this fund have the overall intention of reducing the volatility of returns. However, investing in derivatives may involve a higher degree of risk so the outcome can't be guaranteed.

Balanced Managed

The following three funds comply with ABI Balanced Managed classification, meaning the equity exposure is limited to between 40% and 85% at any one time. The funds must also hold at least 50% in sterling-based assets.

Scottish Equitable International UBS Balanced Managed

This fund is balanced managed and meets the stringent limits of the Association of British Insurers' Balanced Managed classification. It invests in equities, bonds and cash, collective investment schemes (other diversified funds managed by UBS) and derivatives to reduce risk. UBS uses its 'global allocation model' and trademark value investment style which it's used successfully for over 25 years with other funds in its range. This allows it to be more flexible and responsive to changing market conditions. The fund's key aim is to achieve long-term growth by investing in a portfolio of equities with the remainder invested in fixed interest, securities and cash.

Scottish Equitable International Baillie Gifford Balanced Managed

This fund aims to provide strong long-term growth by investing mainly in UK and overseas equities (shares). It's actively managed by Baillie Gifford and although it has a bias towards equity investments it also invests in fixed interest securities and cash.

Scottish Equitable International Newton Balanced Managed

The fund aims to provide superior long-term growth by investing mainly in UK and overseas equities, with the remainder invested in fixed interest securities and cash. This fund is actively managed by Newton, which employs a 'global thematic' approach to investment.

Phase 4

Moving up the risk ladder

Even at the higher end of the risk spectrum, there are a number of options in the current climate that could give clients great opportunities for investment growth. When equities are near the bottom of a cycle, they can often present investors with good value. Knowing exactly when this might be is one of the current challenges. If your clients are prepared to take on greater risk with some of their portfolio, or are looking for a tactical fund to invest in a narrow sector, then these options may be of interest.

Fund options

Scottish Equitable International AEGON UK Opportunities

This fund aims to maximise total return (income plus capital) by investing in a relatively small portfolio of equities and equity-type securities in companies based in the UK, mainly doing business in the UK or listed on the UK stock market. It's an actively managed fund and can invest in small, medium and large companies identified as the best prospects by the AEGON Asset Management UK Equity team. Because it invests in a relatively small portfolio of UK equities compared with other mainstream UK equity funds, it carries more risk than a fund that invests in a large number of holdings. We rate this as above-average risk.

Scottish Equitable International BlackRock UK

This fund aims to achieve long-term capital growth by investing in equities of mainly larger UK companies incorporated or listed in the UK. It's actively managed by BlackRock. BlackRock believes in a robust investment process favouring stock selection rather than asset allocation to generate more value. Again, this falls into the above-average risk category.

Scottish Equitable International AEGON High Yield Bond

This fund aims to maximise total return (income plus capital) by investing in a portfolio of predominantly high yield bonds, selected investment grade bonds and cash. The fund may hold sterling and other currency denominated bonds hedged back to sterling.

Scottish Equitable International Invesco Perpetual Income

This fund aims to achieve a reasonable level of income together with capital growth by investing mainly in UK equities with the remainder in overseas equities. The fund may also invest in other investments that are considered appropriate, in other words collective investment schemes, warrants and other permitted investments and transactions. The fund is actively managed by Invesco Perpetual.

Scottish Equitable International BlackRock European Dynamic

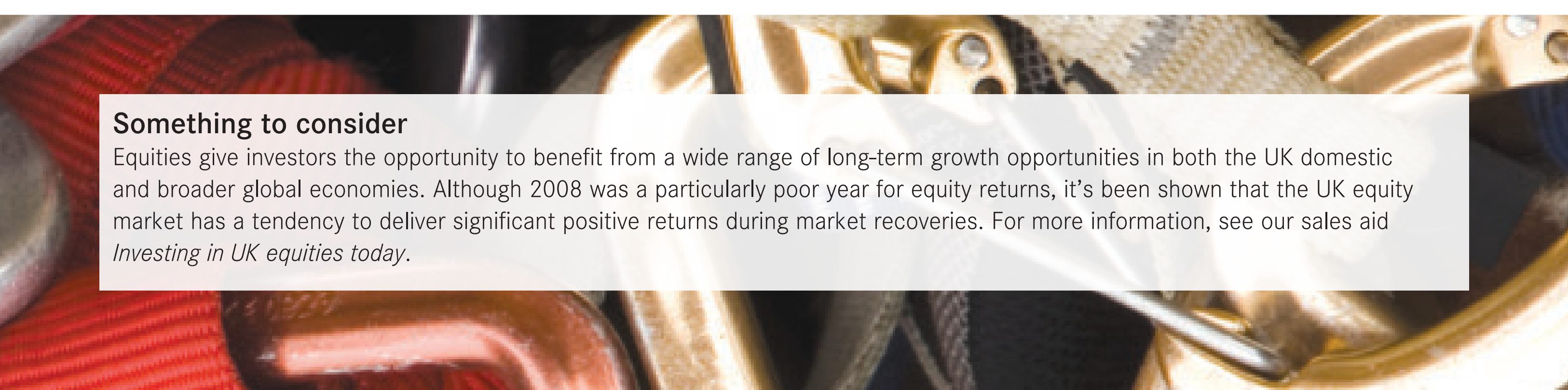
This fund aims to achieve long-term capital growth by investing in the shares of companies listed in Europe excluding the UK. The fund may also invest in collective investment schemes and other types of investment managed by third parties. Sector funds, such as this, tend to invest in a particular asset class such as shares of companies in a particular country or region of the world.

Scottish Equitable International Newton Global Higher Income

This fund aims to achieve increasing yearly distributions together with long-term capital growth with a yield paid quarterly, by investing worldwide in a carefully selected portfolio of typically 60-80 international stocks. This fund is likely to appeal to investors who have already established UK equity income investments and who want to reduce risk by diversifying globally and benefit from the growing yields and dividend growth of global markets.

The Newton Global Higher Income fund has a disciplined investment process with strict buy and sell criteria. Stocks must yield 50% more than the FTSE World (£) Index to be considered for inclusion in the fund and will be sold when their yield falls to below a 25% premium of the index. While this approach enables the fund to participate fully in continued global growth, its emphasis on dividend income provides the potential for consistent income streams.

Stock selection is key to the performance of the fund with the ability to seek out the strongest opportunities with no restrictions on company size, sector or market weighting. The fund holdings are continuously monitored to make sure that the investment case and yield discipline remain intact.



Something to consider

Equities give investors the opportunity to benefit from a wide range of long-term growth opportunities in both the UK domestic and broader global economies. Although 2008 was a particularly poor year for equity returns, it's been shown that the UK equity market has a tendency to deliver significant positive returns during market recoveries. For more information, see our sales aid *Investing in UK equities today*.

Alternative investments

There are an increasing number of investment solutions which offer an alternative to traditional funds. Here we cover some options for consideration.

Structured products

Structured products are growing in popularity and can be a great option for some investors.

Essentially, structured products are a pre-packaged strategy designed to provide some degree of protection and typically a defined, upside potential. They normally exist for a specified period such as three or five years.

For example, an investor may be offered a structured product providing capital protection but exposure to the upside of the FTSE 100, limited to 75% over five years. So, if the FTSE 100 rises they will benefit, but if it falls their capital is protected. Clearly, if the FTSE rises by more than 75% then the investor misses out on the extra returns. And there are risks attached to the derivative instruments often used that investors should make themselves aware of.

Structured products – key points
It's a term deposit with investment element
There's potential for higher return than cash
Protected rather than guaranteed
Choice of term
Access to the investment but with penalties

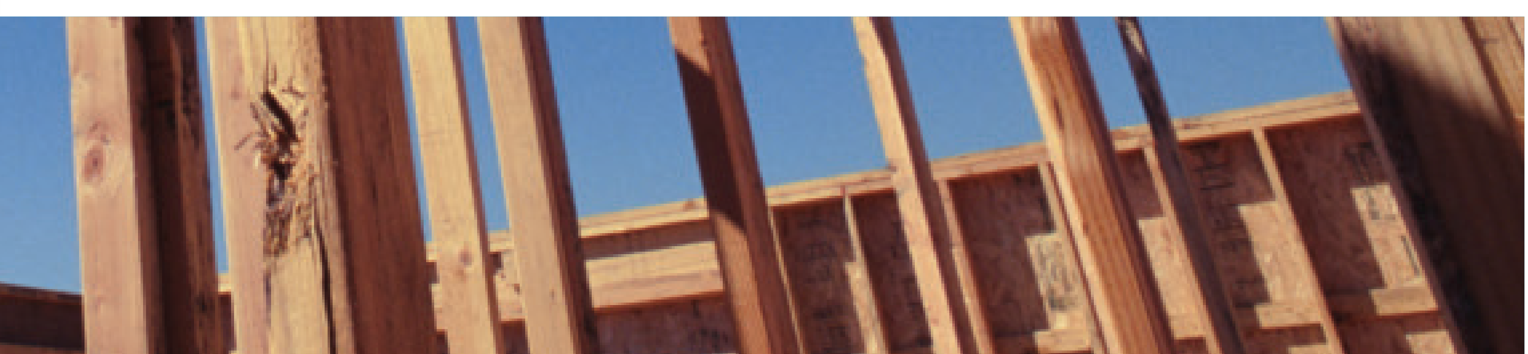
However, for an investor willing to accept the limits on the upside potential of their investment in exchange for capital protection, structured products can provide an excellent solution.

Clients can buy these products as an investment through most offshore life assurance companies. Some of the leading offerings come from organisations including Henderson, Investec and Barclays. We're not responsible for these third party organisations or their products.

Multi-asset portfolios

To successfully spread risk across different markets while continuing to enjoy a decent positive return that outperforms cash, you and your clients could also consider multi-asset offerings, which are aimed at very low-risk investors. If you have a long-term strategy in mind, then having a multi-asset fund as part of a core holding in their investment portfolio seems to makes sense. Please note however, not all multi-asset portfolios carry low risk, so it's important to select them carefully depending on your clients' attitude to risk. Although these funds may aim to provide positive returns in all market conditions and outperform cash, this is not guaranteed.

For more details, please speak to your AEGON consultant.



Wealth Management Portfolio

With its broad choice of funds, our Wealth Management Portfolio makes it easy for existing clients to move from cash investments into a great range of fund options.

Switching funds is not only a simple process, it can also be great value for money.

Existing and new clients alike can enjoy a range of benefits through our Wealth Management Portfolio. Buying and selling funds is easy and convenient. Now could be a great time to take advantage of these benefits:

Tax benefits

- There's no capital gains tax when your client moves their investment in.
- They benefit from virtually tax-free growth.
- Low-risk funds can carry a lower effective yearly charge than their higher-risk counterparts, often making them a cheaper, safer option.
- Unlike with open-ended investment companies (OEICs), your clients won't incur a tax charge for switching funds.
- Clients can control when they pay tax, for example when a chargeable event takes place.
- There's no need to fill out a self-assessment form until a chargeable event occurs.

Investment choice and convenience

- Clients have access to great funds without the expense of buying them directly from providers.
- Lower-risk funds could provide an attractive total return in flat or low growth markets and offer good levels of capital protection.
- Phasing from cash into funds can remove the fear of 'getting the timing wrong'. If clients are invested in the markets, they're well placed to benefit from any upturns in market performance.

Costs

- Clients benefit from specially negotiated lower initial and annual management charges (AMCs) on investment funds.
- There's no quarterly charge.
- There's no dealing charge (25 free switches a year)

Our preferential funds
(through our Wealth Management Portfolio)

Please be aware that the following is not a recommendation of the funds mentioned. This is purely to illustrate the types of fund available via WMP. We don't carry out any due diligence on these funds and we don't assess the suitability or reliability of these investments.

Available to investments of £75,000 or more, our preferential fund range includes a selection of low-risk funds. We've listed some of these below.

With any of these funds, we guarantee to pay fund manager commission into your client's cash account to boost their investment over the longer term if you choose. What's more, we've negotiated special terms to allow your clients to build great portfolios without the usual expense. Over 700 funds have no initial charge and lower annual management charges (AMCs) than if bought direct – giving your clients much better value for money.

The following funds include equity income funds, where reinvested dividends provide a useful cushion in weak markets, corporate bonds and funds of diversified assets – either as tactical or fixed allocations.

Invesco Perpetual High Income

The fund aims to achieve a high level of income, together with capital growth. The fund intends to invest primarily in companies listed in the UK, with the balance invested internationally. In pursuing this objective, the fund managers may include investments that they consider appropriate which include transferable securities, money market instruments, warrants, collective investment schemes, deposits and other permitted investments and transactions.

The fund is managed by the country's leading equity income fund manager, Neil Woodford. Citywire AAA-rated Woodford's style is cautious and he's known for defensively positioning the equity income assets in the fund. A good example of this is that the fund held no banking stocks and so managed to avoid the worst of the sub-prime crisis.

Invesco Perpetual Corporate Bond

It aims to provide high overall returns but with relative security of capital by investing primarily in fixed interest securities.

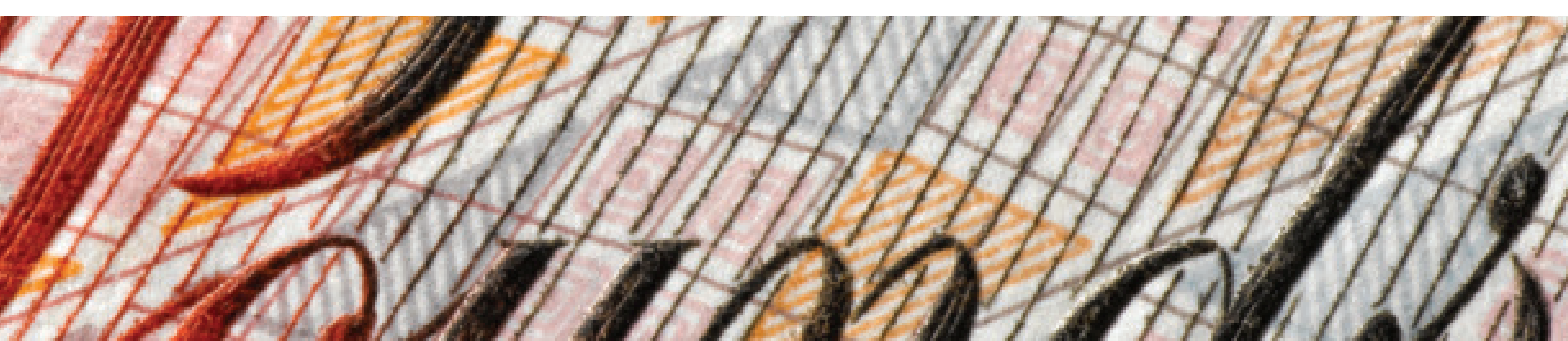
The fund managers consider absolute levels of risk as a key measure. Qualitative and quantitative analysis of company fundamentals is emphasised and the managers follows a four-stage risk-monitoring process. With no sub-prime exposure, this conservative stance has stood them in good stead to weather volatile conditions in the markets. As such, the fund's relative performance has held up well. The fund has been very consistent over time with strong ratings from the major research agencies.

Cazenove Multi-manager Diversity

The fund's aim is to achieve long-term capital growth in excess of inflation from a portfolio invested across a broad range of asset classes. It's intended to provide consistent rates of return with lower risk than more traditional approaches to portfolio management, which tend to be largely dependent on the performance of equities.

This cautious managed fund can't achieve its objective to beat inflation by 4% a year through investing in bonds and equities alone. It diversifies across a broad range of asset classes to achieve smoothed returns whatever the investment climate. It invests in commercial property funds, hedge fund of funds, commodity funds, equity funds, bond funds and cash. The fund is further diversified by selecting fund managers from across the industry believed to be the best in their class.

Please note, the derivative techniques used in this fund have the overall intention of reducing the volatility of returns. However, investing in derivatives may involve a higher degree of risk so the outcome can't be guaranteed.



Jupiter Income

This multi-billion pound portfolio remains a strong performer in the equity income sector. It's run by one of the most experienced individuals in the industry, Tony Nutt. He has a reputation for picking well-run medium and large companies and pays great attention to a company's dividend policy.

The fund objective is to produce high income, increasing at least in line with inflation. The income comes from a managed portfolio that is mainly invested in UK equities and fixed interest stocks.

The manager aims to outperform the FTSE All-Share Index, but also seeks to produce absolute returns and to beat cash. This allows him to be defensive from time to time and during poor markets, which enables the fund to perform well.

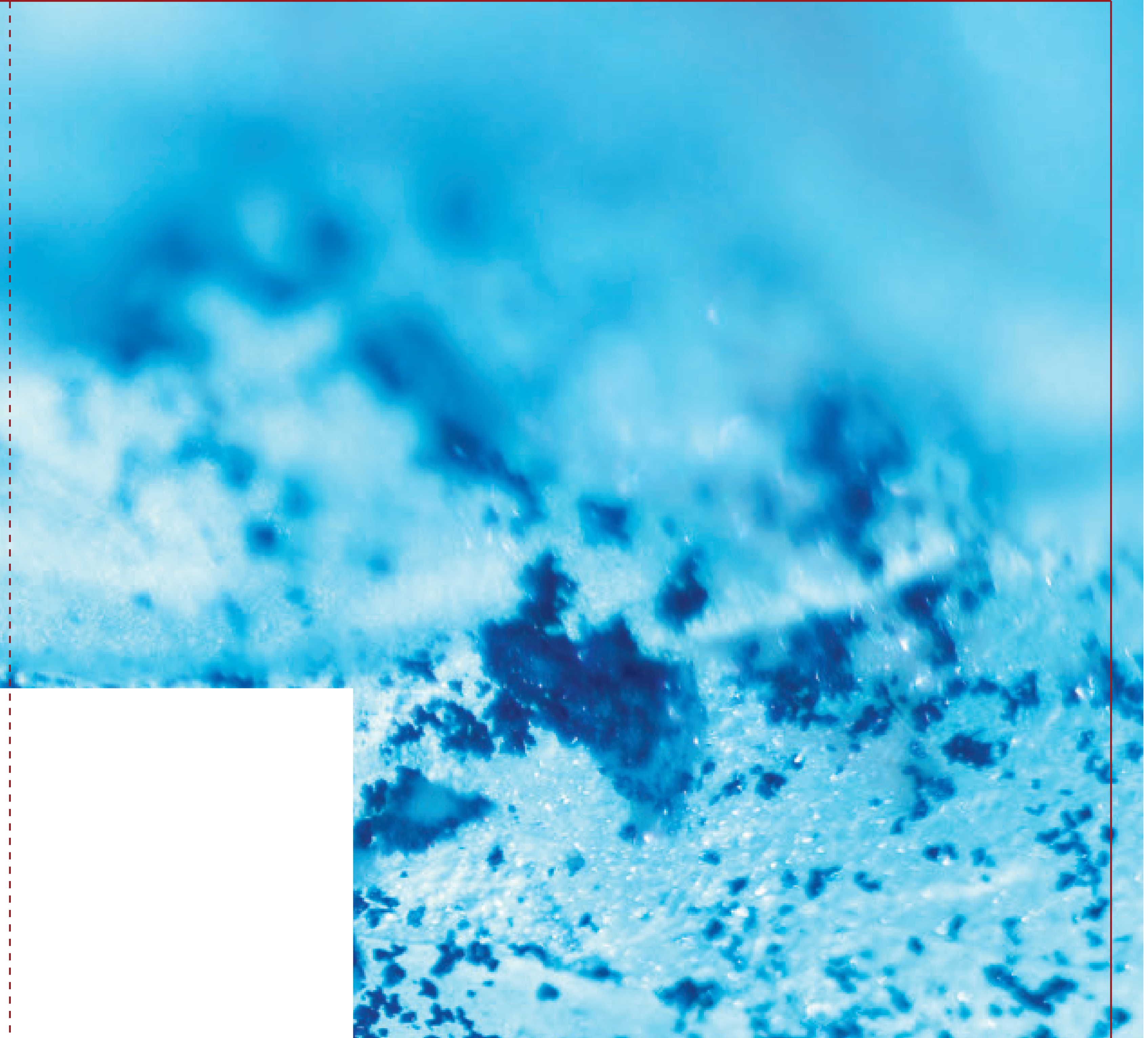
Jupiter Merlin Income Portfolio

The primary aim of this cautious managed fund is to achieve a high and rising income with some potential for capital growth. It looks to achieve this by investing in unit trusts, OEICs, exchange-traded funds and other collective investment schemes across several management groups. Risk is then managed by investing in a blend of equities, fixed interest stocks, commodities and property, principally in the UK.

For further information on this range of funds, please ask for our *WMP Sortable fund list*.

We hope you've found this brochure useful. For more details on any of the funds mentioned, or to discuss various options for your clients, please get in touch with your usual AEGON contact.

You can also visit our website where you'll find fund information as well as tools to help you choose suitable funds for your clients: www.aegonsei.co.uk



Who is this document for?

We've designed this brochure:

- for advisers with clients currently invested in cash in our Wealth Management Portfolio
- for advisers with clients who are invested in cash investments elsewhere and may want to consider our range of funds

Please note – this communication isn't for private customers and shouldn't be given out to, or relied on by, them.

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