



Investment Guide

The Royal Mail Defined Contribution Plan

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Introduction

As a member of the Royal Mail Defined Contribution Plan (the 'Plan') you can decide how the retirement savings in your Member Account are invested. This Investment Guide is to help you understand the investment options available to you under the Plan. You should read this Investment Guide in conjunction with the separate 'Plan Guide'.

Zurich Assurance Limited ('Zurich') has been chosen by the Trustees of the Plan to administer the Plan and provide access to investment funds on behalf of the Trustees.

There are two investment options for you to choose between:

- The **Do It Yourself option** – where you choose and manage your own investment mix from the available funds (currently there are six funds) to suit your personal circumstances and retirement plans; **or**
- The **Lifecycle option** – which aims to manage some of the risks for you automatically. Under the Lifecycle option your retirement savings will be moved into less risky funds as you approach your Selected Retirement Age (please see Step 2 on page 10 for an explanation of Selected Retirement Age).

If you do not select an option yourself, the Lifecycle option is the default option which will apply to you. If you select the Do It Yourself option you cannot have any part of your retirement savings invested in the Lifecycle option.

This Guide has been designed to help you identify your own personal circumstances and approach to risk and then to decide which of the two investment options to follow.

Please note that your investment decisions are important as they will affect your income in retirement. You should think carefully about these decisions.

This Guide has been prepared as at 1st January 2011.

The basics of investment

The Plan is a defined contribution (money purchase) arrangement so the pension you get when you take your benefits will depend on the performance of your investments and the value of your Member Account at that time. You need to think about which type of investments will allow your retirement savings to grow enough to buy the pension you want. You should also think about your attitude to investment risk.

For most members, pension saving is a long-term commitment (of over 10 years). To give your retirement savings a better chance of growing more over the long term, you should think about investing in a fund which carries more risk but where the returns are likely to be greater over the long term. You should ensure you understand the risks and then think about how much of each type of risk you are prepared to accept.

The basic trade-off is that with more volatile funds, the potential for long-term returns may be good but the risk is also likely to be greater (for example, there could be falls in the price of the fund at the time you come to cash in your investment). In contrast, with a less volatile fund the long-term returns are likely to be lower.

As you near the age at which you plan to take your benefits you may want to transfer your retirement savings into bond and cash funds which generally offer more safety but perhaps less return.

Your retirement savings under the Plan are held in your Member Account. The value of your Member Account depends on:

- how much you and your employer contribute to the Plan;
- the investment returns achieved; and
- the costs that are charged against your Member Account.

Charges for administering the Plan and providing investment and communication services will be deducted from your Member Account and depend on how your Member Account is invested. Details of the current charges are shown in the Guide to Fund Charges enclosed with this Guide.



Where do I begin?

Four simple steps

In managing the investments in your Member Account you might want to follow these four simple steps:

Step 1

Understand your personal circumstances and the different types of risk.

Step 2

Decide on the investment option that suits your circumstances.

Step 3

Make your choices under your investment option.

Step 4

Keep your option and choices under review – particularly if your circumstances change.

The rest of this Guide takes you through each of these steps in more detail. If you need further assistance you should contact an independent financial adviser (see page 21).

Step 1 – understand your personal circumstances and the different types of risk

You should ask yourself:

- When do you want to take your benefits?
- How much money will you need to live off in retirement?
- Will you have any other savings or investments?
- Will you have any other sources of income?
- How much can you afford to contribute to the Plan now?
- Are there any types of investment that you do not wish to make for moral or religious reasons?

The answers to these questions will help you identify your personal objectives for your retirement savings. A separate Pension illustration document has been prepared for Plan members which estimates the pension that could be provided from the Plan at age 65 based on certain assumptions.

A rough rule of thumb is:

The more that is contributed to the Plan, the higher your retirement savings will be when you take your benefits.

The earlier you take your benefits the more expensive your pension will be – because it will be paid for longer.

Your pension will also depend on other factors such as the selection of an investment fund or funds, the cost of buying a pension with your Member Account and the kind of pension that you buy when you come to take your benefits.

All investments carry some risk. The main ones are explained in more detail below:

- **Investment risk:** this is the risk that your retirement savings may drop in value. This can happen with all the funds. However, the more time there is until you are due to take your benefits, the less worried you might be about short-term falls and therefore more willing to accept investment risk for the chance of a higher return.
- **Inflation risk:** this is the risk that your investments won't grow quickly enough to keep up with the increase in the cost of living (inflation). Even if they grow in value, if they don't grow quicker than inflation then the real value of your investments goes down. This could happen with less risky funds which tend to produce lower returns.
- **Pension conversion risk:** when you decide to take your benefits, you will need to buy a pension with the money in your Member Account. The cost of buying a pension varies from time to time and moves broadly in line with the price of bonds. Switching your investments into a fund that invests in bonds when you get closer to taking your benefits can help to protect against this risk and so protect the amount of pension that you can buy.
- **Opportunity cost risk:** this is the risk that you invest too cautiously (i.e. in less risky funds) at a time when you could afford to take more investment risk. This could then lead to a lower pension. For example, a member who is not used to making this type of investment decision may be tempted to invest everything in less risky funds, such as a cash fund. Unless the member was close to taking their benefits, his or her pension is likely to be less because of the impact of opportunity cost risk.

A rough rule of thumb is:

Funds with a low opportunity cost risk (such as the Global Assets Fund) have the potential for good long term returns but the risk is likely to be higher that there could be a fall in the price of the fund.

Funds with a medium to high opportunity cost risk (such as the Bonds and Cash Funds) generally provide lower long term returns but there is less risk that there could be a fall in the price of the fund.



Step 2 – decide on the investment option that suits your circumstances

When you have considered your personal circumstances and thought about the different risks described above, you should select either the Do It Yourself option or the Lifecycle option for your Member Account. It is for you to make the decision depending on your personal circumstances and attitude to the different risks.

Note that you are not permitted to choose a combination of the Do It Yourself and Lifecycle options.

Lifecycle option

The Lifecycle option has been chosen to suit many of the members of the Plan. The fund allocation is automatic under the Lifecycle option and it therefore automatically manages some of the investment risks mentioned in Step 1. It may not however be suitable for your circumstances or investment needs and you will need to think about this carefully. You should think about how closely the Lifecycle option matches your investment needs and if its long-term investment aims match your own. For example, the Lifecycle option does not invest in either the Ethical Fund or the Shariah Fund. Details of the Plan's current funds are set out in the tables on pages 16 and 17.

Under the Lifecycle option your retirement savings will be gradually moved into the Cash Fund and the Bonds Fund as you approach your Selected Retirement Age in order to help protect you against short-term movements in markets and changes in the cost of buying a pension. Your Selected Retirement Age can be any birthday you choose between 55 and 64 inclusive (but note that if you do not make a choice, the Plan's Normal Retirement Age of 65 will apply to you).

When you are younger, your Member Account is invested in the Global Assets Fund which aims for long term growth – this is known as the **accumulation phase**. As you approach your Selected Retirement Age, your Member Account is gradually moved automatically into the lower pension conversion risk Bonds Fund and the lower investment risk Cash Fund – this is known as the **consolidation phase**. By the time you reach your Selected Retirement Age your Member Account will be invested around 75% in the Bonds Fund and around 25% in the Cash Fund.



Moving your Member Account like this helps to provide security and stability as you draw closer to your Selected Retirement Age, for two reasons:

- The cost of buying a pension varies and depends partly on the price of bonds. Moving your Member Account into the Bonds Fund when you are closer to taking your benefits can help to protect the amount of pension that you can buy.
- Moving some of your retirement savings in your Member Account into the Cash Fund helps protect the value of any tax-free cash lump sum you might want to take. As you can, under current legislation, take a quarter of your Member Account as a cash sum (paid tax-free), the Lifecycle option will automatically switch your Member Account so that around 25% is held in the Cash Fund by your Selected Retirement Age.

Normally the switch from accumulation phase to consolidation phase will automatically start 10 years before your Selected Retirement Age. This period is known as the 'switching period'. However, the Lifecycle option also gives you two choices:

- **You can select a lower retirement age from 55 to 64 inclusive. This may be relevant if you plan to take your benefits earlier than the Plan's Normal Retirement Age of 65.**
- **You can select a shorter switching period of 5 years. This would mean that you are invested in the Global Assets Fund for longer and so, although this means that you will be exposed to investment risk for longer, could lead to a higher pension if investment returns from the Global Assets Fund exceed those from the less risky Bonds and Cash Funds over that period.**

Notes:

- If you change your Selected Retirement Age (but do not choose the Do It Yourself option at that point) or you change your switching period once your switching period has started, your investment funds will be immediately adjusted to your new Selected Retirement Age or switching period. You should carefully consider the implications of this and the prices of the Global Assets Fund, the Bonds Fund and the Cash Fund at the time you make the change. This is because there could be a significant reallocation between these three funds to adjust your Member Account to the new switching period or Selected Retirement Age at the time you make the change.

For example:

Your Selected Retirement Age is 65 and your Lifecycle switching period is 10 years. You decide at age 57 that you want to change the Lifecycle switching period to 5 years. At the start of your 10 year switching period (age 55), 100% of your Member Account would have been invested in the Global Assets Fund. By age 65, as described above, around 75% of your Member Account would be invested in the Bonds Fund and around 25% in the Cash Fund. At age 57, around 80% of your Member Account would be invested in the Global Assets Fund, and around 20% in the Bonds Fund. A switch to a 5 year Lifecycle switching period at age 57 would trigger an immediate reallocation of your funds back to 100% in the Global Assets Fund, the starting position for a 5 year switching period. As this would trigger a move from the Bonds Fund into the Global Assets Fund, the timing of any change and the relative prices of the two funds need to be carefully considered.

- If you do not take your benefits at your Selected Retirement Age, Zurich will add 5 years to your Selected Retirement Age (up to a maximum of age 74) to create a new Selected Retirement Age. This new Selected Retirement Age will then be used for future illustrations. Your Member Account will remain invested around 75% in the Bonds Fund and around 25% in the Cash Fund unless you make an alternative selection through the Do It Yourself option. You should carefully consider the implications of this having regard to your own circumstances, especially if your intention is to postpone drawing your pension for a few years meaning that your Member Account will therefore be invested for longer.

- The Trustees may change the design or operation of the Lifecycle option at any time and will inform members if this happens.
- The Lifecycle option design assumes that you buy a pension with either no increases in payment or with fixed increases (e.g. 3% a year). If you are likely to buy an index-linked pension, the investment in the Bonds Fund may not be appropriate and so you should consider the Do It Yourself option.

Do It Yourself option

With the Do It Yourself option you choose and manage your own investment mix from the available funds (currently there are six of them) to suit your personal circumstances and attitude to risk. You can change the funds in which your Member Account is invested at any time.

Currently there are six available funds which give members using the Do It Yourself option a wide range of investment risk profiles. The Trustees will monitor the performance of all of the funds and employ investment advisers to help them. From time to time, new funds may be added by the Trustees and others may be discontinued or merged. The Trustees will provide you with as much notice as is reasonably possible of any changes but do not need your consent.

Notes:

- If you change your Selected Retirement Age, this will not affect the investment of your Do It Yourself investment funds.
- If you do not take your benefits at your Selected Retirement Age, Zurich will add 5 years to your Selected Retirement Age (up to a maximum of age 74) to create a new Selected Retirement Age. This new Selected Retirement Age will then be used for future illustrations. This will not affect the investment of your Do It Yourself investment funds.



The six funds currently available are:

Fund name	Investments in fund	Aims of fund	Possible suitability*	Possible risks often associated with this type of fund**	Other points to note
Global Assets Fund	Shares in UK and overseas companies (equities) but may also invest in other asset classes	Achieve long term growth (but accepting some shorter term volatility associated with investing in equities. Please refer to the Appendix)	Early to mid career, some way from taking your benefits	Investment risk – High Inflation risk – Medium Pension conversion risk – High Opportunity cost risk – Low	Assets not held in sterling carry some exchange rate risk and will be affected by fluctuations in the value of the pound
Ethical Fund	Shares of UK and overseas companies (equities) that pass a set of socially responsible criteria	Achieve long term growth via socially responsible investments (but accepting some shorter term volatility associated with investing in equities. Please refer to the Appendix)	Early to mid career, some way from taking your benefits	Investment risk – High Inflation risk – Medium Pension conversion risk – High Opportunity cost risk – Low	Assets not held in sterling carry some exchange rate risk and will be affected by fluctuations in the value of the pound The ethical positions taken may not conform to your personal beliefs
Shariah Fund	Shares of UK and overseas companies (equities) that comply with Islamic Shariah principles	Achieve long term growth via investments which comply with Islamic Shariah principles (but accepting some shorter term volatility associated with investing in equities. Please refer to the Appendix)	Early to mid career, some way from taking your benefits	Investment risk – High Inflation risk – Medium Pension conversion risk – High Opportunity cost risk – Low	Assets not held in sterling carry some exchange rate risk and will be affected by fluctuations in the value of the pound

* Please note that the possible suitability of a particular fund will vary from member to member and that whether a particular fund may or may not be suitable for you will depend on your own particular circumstances.

** Please note that the way a type of fund has performed in the past is not necessarily the way such types of fund will perform in the future.

Fund name	Investments in fund	Aims of fund	Possible suitability*	Possible risks often associated with this type of fund**	Other points to note
Bonds Fund	Fixed Interest Government bonds (gilts) and Corporate Bonds issued by UK companies	Broadly match the cost of buying a pension that does NOT increase with inflation Unit prices can fluctuate over time but typically by not as much as for equities. Please refer to the Appendix	Mid to late career, approaching taking your benefits	Investment risk – Medium Inflation risk – Medium Pension conversion risk – Low Opportunity cost risk – Medium	
Inflation Linked Bonds Fund	Index-linked Government bonds (gilts) issued with a long-term repayment period	Broadly match the cost of buying a pension that increases with inflation Unit prices can fluctuate over time but typically not as much as for equity funds. Over the short-term, returns may not match inflation	Mid to late career, approaching taking your benefits	Investment risk – Medium/Low Inflation risk – Low Pension conversion risk – Low Opportunity cost risk – Medium/High	
Cash Fund	A wide range of different deposit based investments or investments linked to money-market interest rates	Provide protection to the value built up Under certain market conditions, it is possible that the return may be negative	Very close to taking your benefits	Investment risk – Low Inflation risk – Medium Pension conversion risk – Medium Opportunity cost risk – High	Can also provide a short term 'safe haven' when other funds are expected to be volatile

Note: The above table should not be construed as any form of investment advice in relation to your investment fund decisions. None of the Trustees, Royal Mail Group nor any of its employees are able to give you investment advice as to which funds to invest in. Zurich is also unable to provide such investment advice to you.

Further information about each fund is set out in the relevant Fund Information Sheet which is enclosed with this Guide. In addition, a description of each type of investment is provided in the Appendix.

Step 3 – make your choices under your investment option

Once you have decided on whether you want the Lifecycle option or the Do It Yourself option you need to complete a Choices Form and return it to the Plan's administrators who are:

Zurich Royal Mail Service Team
PO Box 1073
Cheltenham
Gloucestershire
GL50 9NN

If you need a blank Choices Form you should contact the Zurich Royal Mail Service Team on 0800 092 8263 or email royalmailserviceteam@uk.zurich.com.

You can also download a copy of the Choices form from the Plan website www.zurich.co.uk/corporatepensions/royalmaildcplan

How you fill in the Choices Form will depend on the investment options you have chosen.

If you want the Lifecycle option to apply then you should indicate this on the Choices Form. The only other decisions you need to then make are whether you want to select a retirement age of below 65 (from 55 to 64 inclusive) or a Lifecycle switching period of 5 (rather than 10) years.

If you want the Do It Yourself option you will need to indicate this on the Choices Form and also indicate how you want your retirement savings invested between some or all of the six available funds.

If you do not return a completed Choices Form then the default investment option will apply which means that your Member Account will be invested in the Lifecycle option with a retirement age of 65 and the standard 10 year switching period.

Please note that those eligible employees who started work for a Royal Mail Group employer before 1 April 2008 and who wish to join the Plan should complete their choices on an Application Form. A new Choices Form should be completed if such members wish to make changes in future.

Step 4 – keep your option and choices under review

Pension saving is a long term commitment and things will change as you get older. Over time your funds may not have grown as much as you hoped and your personal circumstances, your attitude to risk and the economic situation can all change. As things change you should consider if your investment options and choices are still right for you.

Each year you will receive a member's benefit statement which will show you how your Member Account is performing. It's important that you regularly review your investment choices. A good time to do this is when you receive your annual benefit statement (or, at other times, if there is a change in your personal circumstances).

You can also see how the Plan's funds are performing on the Plan's website at: www.zurich.co.uk/corporatepensions/royalmaildcplan or you can contact the Zurich Royal Mail Service Team at any time for up to date details of the value of your Member Account.

A Fund Information Sheet for the funds available and a Guide to Fund Charges which shows the level of charges which apply to each of the funds is included with this Guide.

At any time you can choose to change your investment options, for example you may decide to:

- change from the Lifecycle option to the Do It Yourself option (or the other way round)
- change your mix of investment funds if the Do It Yourself option applies
- amend your Selected Retirement Age (whichever option applies)
- change the switching period for your Lifecycle option from 10 to 5 years (or the other way round).

To change your investment options you need to send a completed Choices Form to the Zurich Royal Mail Service Team at the address shown on page 18.

Although you can request a change at any time, you won't be able to make changes on consecutive days. Any changes you request will be made as soon as is practically possible and cannot be backdated.

Changes to investment options and funds are currently free of charge but you should note that a charge may be imposed on some changes of this kind in the future. In addition, you should be aware that whilst changes will be processed as quickly as possible, the Plan's administrator may not be able to make the change immediately if the manager of a particular fund suspends trading in that fund or delays switches to other funds. In exceptional circumstances, there may be a delay of a month in making the change requested.



Other information

You should read the Plan Guide for further information about how the Plan operates.

This Investment Guide has been prepared as a guide for Plan members but should not be seen as recommending a particular course of action. It is your responsibility to choose investment funds and options which suit your needs and circumstances.

The Trustees, Royal Mail Group and its employees are not authorised to give you advice on choosing your investments. Zurich is also unable to provide financial advice to you.

Independent financial advice

If you are not sure about making decisions about your pension options you should speak to an Independent Financial Adviser (IFA). You may have to pay for the work that an IFA carries out for you. You can find the name of an IFA by getting in touch with IFA Promotions Ltd (an independent body which provides contact details for IFAs) by:

post: IFA Promotions Limited
2nd Floor
117 Farringdon Road
London
EC1R 3BX

web: www.unbiased.co.uk

Information issued by The Pensions Regulator

The Pensions Regulator has issued a general guide designed to help members understand the defined contribution fund choices available to them. The guide, which may be of help to you when you are thinking about what investment choices to make, is called 'Making pension fund choices: think before you choose' and is available at:

<http://www.thepensionsregulator.gov.uk/pdf/MakingPensionFundChoices.pdf>



Appendix – Types of investments

Note: The following descriptions are to provide general high-level information only and should not be taken to be any form of advice informing your investment fund decisions.

Passive management

The investment manager aims to produce a return that mirrors that of a specific investment index, such as the FTSE All-Share Index. However, since it may not be possible to exactly replicate the component parts of an index, the actual return may be greater or less than the index return; this is known as ‘tracking error’. Passive funds are sometimes called ‘index-tracker’ funds.

Active management

The investment manager uses its expertise to try and choose investments that will beat the returns of a specific index – this is known as ‘outperforming’.

Equities

In the past, equities (shares in companies) have typically grown in value over longer periods – often by more than bonds or cash – but they can go up and down in value, particularly in the short term.

Equities are likely to carry the most ‘investment risk’. So, you might want to consider investing in equities if you’re aiming for higher long-term returns, and aren’t too worried about losing value over shorter periods.

You may be more willing to invest in equities if, for example, you have a long time until you are due to take your benefits, or have other secure investments or your Plan pension is only a small part of your retirement savings.

Bonds

Bonds are instruments issued by a company, government or other organisations, under which they borrow money for a fixed amount of time, in return for an agreed rate of interest. UK Government bonds are called ‘gilts’. The interest can either be ‘fixed’ (for example 5% per year) or ‘index-linked’ (which means that it varies in line with inflation). Like equities, bonds can go up or down in value, particularly when interest rates change, but typically bond prices do not fluctuate over time as much as equities.

Investing in bonds closer to when you plan to take your benefits might help protect the buying power of your Member Account. This is because the cost of buying a pension depends partly on the price of bonds and gilts. By switching your investments into a fund that invests in bonds when you're closer to taking your benefits, you can help to protect your investments against the risk of adverse movements in the prices of bonds. Otherwise, if you are not invested in bonds, and other things being equal, a lower pension would be bought as a result.

In the past, bonds have typically produced lower returns over longer periods than equities, but higher returns than cash. They are generally less volatile than equities but are more volatile than cash.



Cash

Cash funds invest in deposits and other cash based investments which earn interest over time. Whilst they offer some capital protection they do not offer total protection due to the various risks inherent in the things they invest in. As such, the value of your investment can still go down as well as up. However, the value of a cash fund will usually increase broadly in line with deposit rates of interest.

In addition to this risk, all cash funds are subject to 'inflation risk' as returns may fail to sufficiently outpace inflation.

Cash funds can provide good capital security for your Member Account if you're about to take your benefits, but may not provide high long-term returns.

Ethical investment

Our Ethical Fund currently invests only in equities (and so you may also wish to read the section above which gave a brief description about equities).

Ethical funds aim to invest in such a way that doesn't encourage unethical governance practices or industries or in such a way as to encourage positive business practices. For example, companies in which ethical funds invest may need to demonstrate that they are working towards good standards of environmental management, climate change mitigation and adaption, countering bribery or upholding human and labour rights (although this list is not exhaustive).

By way of example, when choosing ethical investments some of the following types of companies are normally excluded; tobacco producers, manufacturers of either whole, strategic parts or platforms for nuclear weapons systems and companies manufacturing whole weapons systems.

There is also a benchmark index of companies for ethical investment. This is called the FTSE4GOOD Global Equity Index.

It should be noted that by investing in an ethical fund, you are automatically limiting the range of companies which are available for investment. This may impact potential investment returns in comparison to an equity fund which does not restrict its investment scope.

Shariah investment

Our Shariah Fund currently invests only in equities (and so you may also wish to read the section above which gave a brief description about equities).

Shariah investment is a way of investing that complies with Islamic Shariah principles. There is also a benchmark index of suitable companies for investment as verified by Islamic scholars who sit on the Dow Jones Shariah Board. This is called the Dow Jones Islamic Titans 100 Index and, for example, excludes investments in companies that profit from such goods as arms, alcohol, tobacco and pork (as well as others – this list is not exhaustive).

It should be noted that by investing in a Shariah investment fund, you are automatically limiting the range of companies which are available for investment. This may impact potential investment returns in comparison to an equity fund which does not restrict its investment scope.



Please contact us if you would like this in large print, braille or on audiotape or CD.

