Personal Investment Management Service

Guide to Investment

You can count on us

RL 360°

Important note

This *Guide to Investment* has been designed to provide a basic understanding of the investment opportunities available through the Personal Investment Management Service (PIMS). It is not designed to provide investment advice or a recommendation to use a particular investment or investment manager.

Contents

Introduction

This guide aims to explain in more detail the different types of investment opportunities that are available to you through your PIMS policy.

It also details some of the potential benefits and risks that you might experience when investing.

This guide does not aim to provide you with a current list of investments available through PIMS. Acceptable investments change on a regular basis with some being added and others being removed.

For information about our dealing processes and procedures please refer to our *Dealing Instruction* form or contact our Isle of Man office via any of the methods detailed at the back of this guide.

Before applying for PIMS you should consult your financial adviser and also read the rest of our literature suite in full, including:

- *Brochure*
- *The Facts*
- *Key Features*

Your financial adviser will be able to advise you on suitable features, the charging structure and potential investments. You may request a copy of the PIMS *Terms and Conditions* at any time.

Investing through PIMS

We understand that it is crucial for you to choose the right type of investments in order to achieve your financial goals.

PIMS offers a tax efficient way (through its structure and offshore nature, as demonstrated in the following sections) of allowing you to build an investment portfolio dedicated to your needs. You can access a carefully selected range of investment funds through PIMS Focused or more specialised boutique investments such as hedge funds and company shares through the open-architecture PIMS Flexible.

There is no restriction on the number of investments you can choose for your PIMS policy, making it easy to combine the expertise of numerous investment managers. Each investment manager is likely to have a specialist knowledge of different market sectors and individual regions which could allow them to deliver the performance that matches your objectives.

Some of the benefits

Our head office is based in the Isle of Man, one of the world's leading offshore financial jurisdictions. As a result of being based in the Isle of Man your investments through PIMS have greater potential for growth due to the tax efficient environment in which we operate (see below - Introducing 'Gross roll-up'). It is also likely that you will be able to access a wider range of investments offshore than you would be through insurance products in your own country. The following are some of the potential benefits.

Introducing 'Gross roll-up'

In some countries underlying investments held within bonds are taxed on an ongoing basis on interest received and also on growth. The UK would be an example of this. In the Isle of Man, however, this is not the case apart from any withholding tax that may be deducted at source on income arising from investments held in some countries and cannot be reclaimed by us.

Table 1 shows the potential benefit to you of gross roll-up over time. The table is based on an investment of GBP200,000 growing at 7% per year with tax deducted on surrender, compared with the tax treatment of another investment where tax is deducted at 40% each year. The gross value of the policy is also shown in the graph.

Table 1 - The potential benefit of gross roll-up over time

Investment period (years)	Gross value	Net value after tax is paid on surrender	Net value after tax is paid yearly	Difference
0	£200,000	£200,000	£200,000	£0
5	£280,510	£248,306	£245,679	£2,627
10	£393,430	£316,058	£301,792	£14,267
15	£551,886	£411,084	£370,720	£40,364
20	£773,937	£544,362	£455,391	£88,971

Graph 1 - Illustrating the effect of gross roll-up

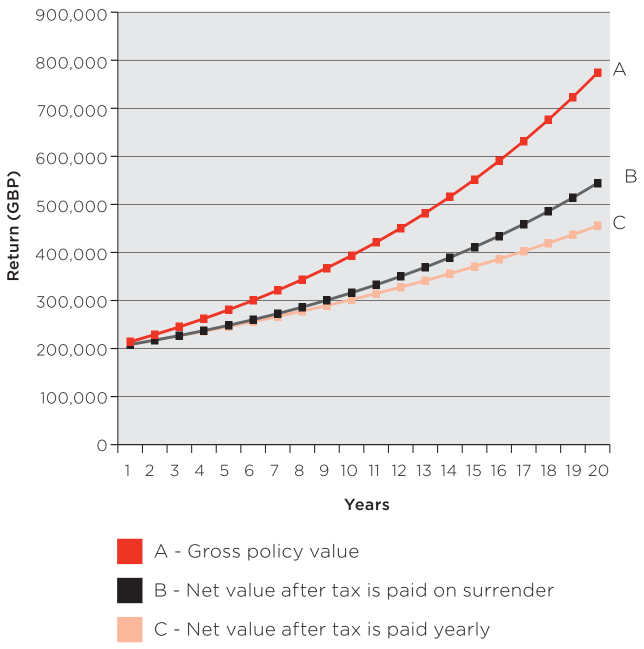


Table 1 and Graph 1 illustrate a mathematical example of gross roll-up. They do not show the effect of product charges, withholding tax (as mentioned previously), or potential exchange rate fluctuations that could reduce the impact of gross roll-up.

Some of the benefits continued

Institutional discounts

By investing through PIMS we can offer you institutional discounts on many investments that a private retail investor would not receive. This could significantly reduce the initial costs of investment. The best way to demonstrate this is with an example.

Using the BlackRock UK Absolute Alpha (Acc) fund as our example and assuming an investment of GBP200,000 on the terms we have agreed with BlackRock as at May 2012, we can see the potential savings available in Table 2.

PIMS could save you GBP10,000 in the first year alone, but it is important to stress that these figures do not take into account growth rates or other product charges relating to PIMS.

This example in Table 2 is for illustration purposes only and should not be taken as a recommendation to use BlackRock or the UK Absolute Alpha (Acc) fund, or any other investment manager.

Table 2 - Illustrating the potential benefits of institutional discounts

	Direct investment	Direct costs	PIMS investment	PIMS cost
Initial charge	5.00%	£10,000	0.00%	£0
AMC	1.50%	£3,000	1.50%	£3,000
Cost comparison		**£13,000**		**£3,000**

Some of the benefits continued

Guided-architecture PIMS Focused

PIMS Focused provides access to a defined menu of over 1,200 investment funds. These have been carefully selected to incorporate a broad range of investment styles and varying degrees of risk.

Charges for PIMS Focused are lower, due to the defined menu, when compared to PIMS Flexible. This could make PIMS Focused the ideal vehicle where you simply require access to conventional investment funds and recognised management houses.

Should you require access to an even broader range of investments in the future, you can simply convert your PIMS Focused policy to Flexible for a one-off fee. Details of our fees can be found in *The Facts*.

Some of the benefits continued

Open-architecture PIMS Flexible

To allow you to build a truly customised portfolio, PIMS Flexible is open-architecture. This simply means that your PIMS Flexible policy can access a vast multitude of different investments. Rather than limiting your choice of investments by providing you with a defined range (PIMS Focused), you can choose any investment as long as it is acceptable to us. PIMS Flexible also continues to offer all of the institutional discounts on the investments funds within the PIMS Focused range.

Being open-architecture, PIMS Flexible ties in perfectly with modern portfolio theory (MPT), as originally developed by Harry Markowitz. MPT is all about diversification, and by that, Markowitz meant choosing several different investments rather than just one as a way of minimising risk.

The beauty of open-architecture is that you can choose investments with varied geographic focus, for instance the UK, Europe, USA, Asia, Latin America, GCC (Gulf Cooperation Council) or BRIC (Brazil, Russia, India and China). You can also choose investments with a specific sector focus such as financial, healthcare, energy or telecommunications, to name just a few.

An ideal way to demonstrate the potential benefits of diversification is to use an example. By looking at the IMA (Investment Management Association) Technology and Telecommunications sector between 27 March 1997 and 26 March 2012, we can see a short-term period of phenomenal growth but then also the hit of the 'Dotcom' bubble bursting with an equally quick drop in values.

This hypothetical example is purely to illustrate the potential benefits of a diversified portfolio, and in no way guarantees better long-term performance. You should be aware that past performance may not be repeated and must not be used as a guide to future performance. This example does not include the charges associated with PIMS or any investment. All investments are subject to an element of risk, and you can read about these on page 13.

Had you invested GBP100,000 wholly within the IMA Technology and Telecommunications sector, during the same period, you would have seen your investment rise by 450% at its peak on 10 March 2000, and then crash to -31.85% by 11 October 2002. By 26 March 2012 your initial investment of GBP100,000 would have been worth GBP192,285.84, a 92.29% increase in value.

Whilst still making a profit 13 years on, you have to remember that the cost of inflation would effectively erode its value.

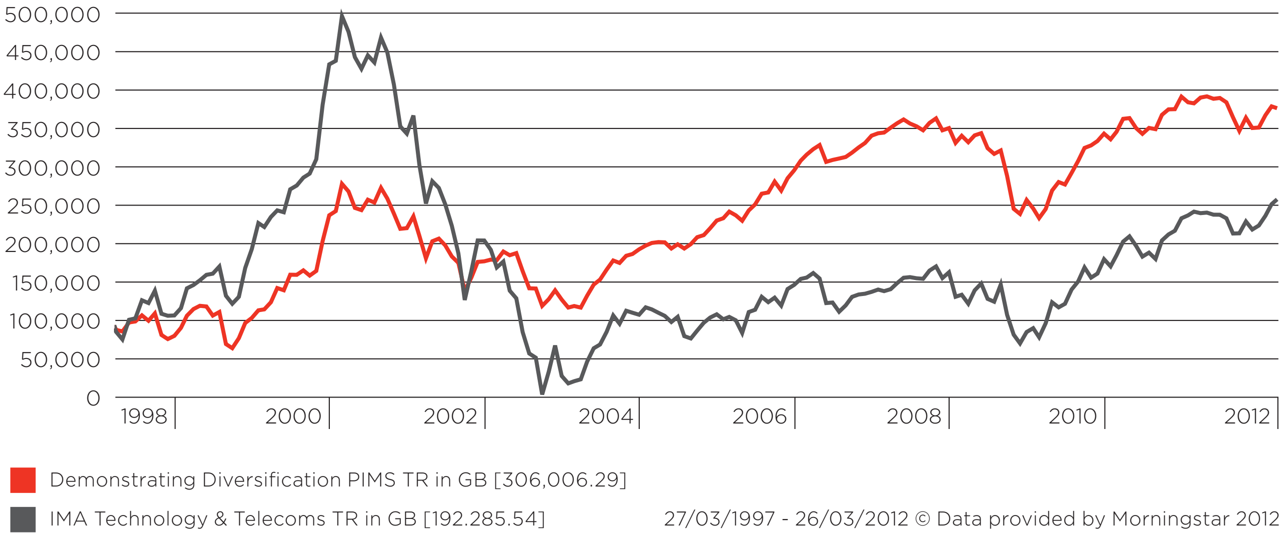
If you had taken a diversified approach and spread your initial investment amongst different investment sectors, you might not have seen the same short-term gains on 10 March 2000, but in the longer term you could have increased the value of your initial investment significantly over just the IMA Technology and Telecommunications sector alone.

Some of the benefits continued

By splitting your initial investment into the following sectors, as set out below, its value on 26 March 2012 would have been GBP306,006.29, a 206% increase. As you can see from the graph, the diversified approach has a much flatter profile as risk is spread across sectors and ultimately has resulted in greater gains.

- IMA Property 25.00%
- IMA European Smaller Companies 20.00%
- IMA Global Emerging Markets 20.00%
- IMA Asia Pacific including Japan 10.00%
- IMA Technology & Telecoms 10.00%
- IMA UK Smaller Companies 10.00%
- IMA Specialist 5.00%

The open-architecture nature of a PIMS Flexible policy makes maintaining a portfolio of investments simple, not only because you have access to thousands of potential investments, but because you can switch between investments at any time without having to worry about incurring a charge to tax. This allows you to quickly adapt your investment strategy in response to changes in the marketplace.



27/03/1997 - 26/03/2012 © Data provided by Morningstar 2012

Past performance may not be repeated and must not be used as a guide to future performance.

Managing your investments

You can choose investments yourself or, if you do not have an in-depth knowledge of the investment world, you can bring in some help. PIMS allows you to appoint an investment adviser or discretionary manager (only PIMS Flexible) to advise on, or manage your investment.

Appointing an Investment Adviser

Whilst your financial adviser may be able to provide a complete financial strategy for you, an investment adviser will usually only concentrate on the investments within your PIMS policy. In some cases your financial adviser may also be able to act as your investment adviser.

Usually an investment adviser will provide you with a number of investment recommendations that you can discuss and come to a mutual agreement on. Under your PIMS policy, an investment adviser can be discretionary or non-discretionary. An investment adviser operating on a discretionary basis will be allowed to place dealing instructions on your behalf. An investment adviser operating on a non-discretionary basis cannot place dealing instructions on your behalf until they have consulted you first. It is important that you discuss this with an investment adviser, so you can decide what is the best option for you.

An investment adviser is appointed by you and therefore it is your responsibility to pay any fees associated with the advice taken. You can authorise us to make payments from your PIMS policy to pay an investment adviser.

If you appoint an investment adviser, we will continue to retain custody and dealing responsibilities for the investments held within your PIMS policy. This means that the range of institutional discounts that we have negotiated will still be available to you.

If you wish to appoint an investment adviser you will need to complete our *Investment Adviser Appointment Form*. You can do this at the start of your policy along with your application or appoint an investment adviser at a later date.

Managing your investments continued

Appointing a Discretionary Manager – PIMS Flexible

Discretionary management is becoming increasingly popular, especially if you are looking for professional investment advice but without the requirement to be involved in the day-to-day management.

Your financial adviser can work with you initially to identify your attitude to risk and investment profile, and then suggest a suitable discretionary manager whose investment style is aligned to your profile. The discretionary manager will then make investment decisions on your behalf, according to your agreed strategy. You should continue to meet with your financial adviser on a regular basis to discuss any changes in your circumstances that could affect your investment profile.

Discretionary management allows your chosen manager to move quickly and take advantage of arising opportunities, when timescales can be demanding. This means greater potential for investment gains.

Depending on your chosen discretionary manager, dealing fees and investment manager charges may vary from ours. This is because your discretionary manager will retain custody and dealing responsibilities for the investments linked to your PIMS policy.

In some cases a discretionary manager will require an initial investment that is higher than the minimum amounts as detailed in *The Facts*. Full details of your discretionary managers charges and minimum investment level should be obtained through your financial adviser.

If you wish to appoint a discretionary manager you will need to complete a *Discretionary Manager Appointment Form*. You can do this at the start of your policy along with your application or appoint a discretionary manager at a later date.

Allowable investment guidelines

The following are examples of investments that would generally be available under your PIMS policy.

Authorised or recognised investment funds

We generally regard the investment funds from the following countries as acceptable:

- A European Economic Area country
- Channel Islands
- Isle of Man
- Hong Kong
- Bermuda
- Cayman Islands
- British Virgin Islands
- New Zealand
- Australia

Mutual investment funds

We will consider these where:

- We are able to hold the investment in our custodian's or nominee name.
- Investments can be realised for a cash value within five months of your instruction to sell.
- Investments are priced as often as they are dealt. For example, an investment which is dealt monthly is also priced monthly.
- Investments are priced at least every 3 months.

Equities & bonds

Stocks will generally be accepted into PIMS Flexible where:

- The exchange is quoted on Her Majesty's Revenue & Customs' (HMRC) list of recognised exchanges.
- Our appointed stockbroker is authorised and able to trade in the stock.
- Our custodian has a settlement and delivery service in the specific market.

Allowable investment guidelines continued

Cash deposit accounts

We will consider these for PIMS Flexible where:

- The cash deposit can be held in our name.
- Your deposit is at least GBP50,000/EUR75,000/AUD77,500/USD100,000/HKD750,000/JPY8,500,000.

We may ask you to sign a declaration indicating you are happy for us to place a deposit with a particular institution.

Hedge funds, traded endowment funds, and traded life policy funds

We will consider these investments on an individual basis.

Experienced, professional, qualified and sophisticated investor funds

We will consider these investments on an individual basis.

Where we make such funds available, you will usually be required to complete further documentation prior to any dealing instructions being placed.

All other types of investments

We will consider other investments on a case by case basis, subject to them being acceptable to us and compliant with any regulations that may apply.

Investment risks

No matter which investments you choose for your PIMS policy, there are a number of common risks that you should be aware of.

- The value of your policy can go down as well as up depending on the investments it is linked to, and you may not get back your premium(s) paid. We are not responsible for, and will not compensate you in relation to, the performance of your chosen linked investments.
- The value of investments can go down as well as up purely because of exchange rates. This may happen when investments are valued in a currency other than your policy currency.
- The past performance of an investment may not be repeated, therefore it must not be used as a guide to future performance.
- Not all investments carry the same level of risk. Your financial adviser or appointed investment adviser can help guide you as to which investments are suitable to meet your risk profile. If you choose a high risk investment you should accept that you might be more likely to lose the entire amount invested.
- Some investments may only deal on a weekly, monthly or quarterly basis. If this is the case, it could delay the sale or purchase of an investment.
- If we sell an investment and receive its cash value in multiple instalments, we cannot re-invest or pay in full, the benefits from your policy, until the full cash value has been received.
- When we need to sell investments in your policy the investment manager may impose a minimum sale amount. This could result in a larger amount of cash being held in the PIMS cash account than would otherwise be invested. Any minimum sale amount should be detailed by the investment manager in the investment documentation.
- If you link your policy to a property based investment fund, you should be aware that property can be difficult to sell, therefore we might not be able to sell your investment as quickly as you would like us to.
- The investments linked to your policy are owned by us, and in most cases, as we are a corporate investor, they will not be eligible for compensation under investment compensation schemes.
- If you link your policy to a cash deposit account your investment may not be covered in full by any depositors compensation scheme, should the deposit account provider become insolvent. This is because you are not the owner of the account(s) linked to your policy, we are. Therefore the amount (if any) which we recover under any scheme could be substantially less than the amount you might have been able to recover had you owned the cash deposit account(s) yourself.

We are not responsible for the performance of your linked investments and we will not pay any compensation to you should they fall in value, or have no value at all. Where the provider of an investment linked to your policy becomes insolvent or is unable to meet its liabilities for any reason, your policy will suffer the loss.

Important notes

Repatriation to the UK

If you move to the UK in the future there are rules regarding the types of investment that can be held within this type of policy. At this time no investment can be linked to your PIMS policy in the UK if the consequence of its inclusion would result in a tax charge under the Income Tax (Trading and Other Income) Act 2005 Section 515 (or any other statutory re-enactments). It is your responsibility to make sure that any investments linked to your policy, that may result in such a charge, are sold before moving to the UK.

General

PIMS is available exclusively in association with financial advisers. Your financial adviser can provide a final recommendation as to whether or not PIMS is suitable for you.

Owners of policies issued by RL360 Insurance Company Limited receive the protection of the Isle of Man Compensation of Policyholders protection scheme, which covers an amount equal to 90% (subject to the provisions of the scheme) of RL360°'s liability where it is unable to meet its financial obligations. RL360° reserves the right to adjust the returns to cater for any levy or charge made on it under the regulations or similar legislation.

The information contained in this *Guide to Investment* is based on our understanding of Isle of Man legislation as at May 2012.

Whilst every care has been taken in producing this document, we cannot accept responsibility for our interpretation or any subsequent changes to legislation. This document is not intended as a substitute for legal or tax advice.

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