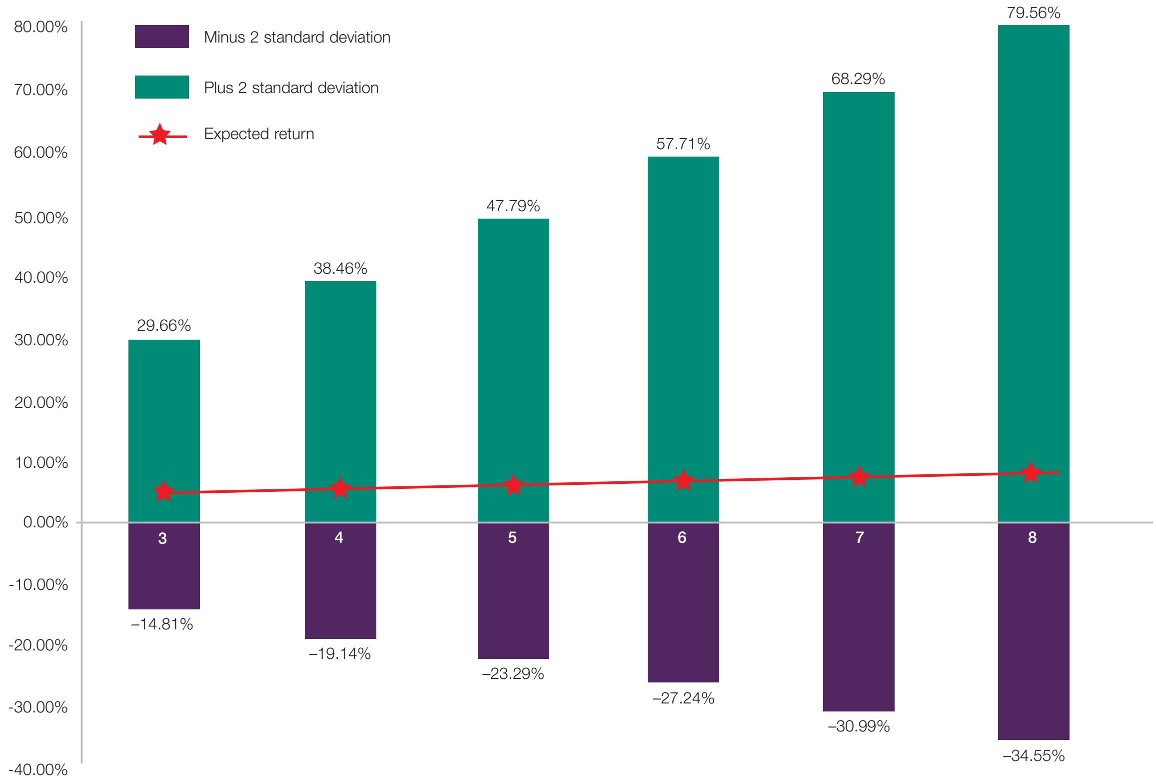
spectrum: the potential returns

for financial advisers only

Strategic asset allocation seeks to utilise a mathematical formula whereby assets can be combined with the aim of achieving the investor's goals over the life of the investment.

Individual investment asset classes are combined into a bespoke investment portfolio via a process known as Mean Variance Optimisation. This process is an integral part of Modern Portfolio Theory, which uses expected rates of return and implied volatility for each asset class. The aim is to optimise the asset allocation so as to achieve the highest expected level of return for a given level of risk. The following table demonstrates the range of annual 'expected returns' for Spectrum risk levels 3 to 8 and the average of all possible returns within the range of each risk level.



Source: Skandia Investment Management Limited (SIML). Figures based on three-month LIBOR (London Interbank Offered Rate) as at 18 September 2009.

The figures should not be taken as a projection of the likely returns from the Spectrum funds and show the implied volatility and mean expected return figures of Spectrum funds 3 to 8, to two standard deviations (ie all returns are expected to be between these extremes in 95 years out of 100; this is often described as a 95% confidence level). Figures are shown net of tax, underlying manager fees and the Skandia Investment Management Limited (SIML) Annual Management Charge (AMC). The figures shown are the expected arithmetic average returns and the ranges assume that returns are based on a log normal distribution. Research by SIML has shown that Spectrum risk levels 3 to 8 encompass approximately 95% of investors' portfolios.

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