

What is a mirror fund?

International Funds – Isle of Man

July 2008

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For Professional Advisers only

At Friends Provident International Limited (FPIL) we have a range of mirror funds that can only be accessed through FPIL investment plans. The premium paid into the plan is then used to purchase units in the chosen mirror funds.

As our company is based in the Isle of Man our mirror funds are classed as offshore unit-linked insurance funds making them eligible for the tax efficient benefits of a company registered in an offshore jurisdiction.

This guide explains how the funds can be accessed and answers some of the most commonly asked questions about mirror funds. However, the guide is not designed for those clients who invest in these funds via a Personal Bond style plan, as different rules apply to investments placed through these products.

What is a Mirror Fund?

Our mirror funds invest exclusively in other funds – the underlying funds - managed by fund management companies external to Friends Provident International Limited. The mirror fund may also hold a small amount of cash, in addition to investment in the underlying fund. As such, the unit price of the mirror fund will differ from the price of the underlying fund. However, the price of the mirror fund, and hence the performance of the mirror fund, will rise and fall broadly in line with the performance of the underlying fund.

Investors may get back less than they paid in. FPIL products are viewed as medium to long term investments and are not designed for early surrender.

Our Mirror Fund Range

- At FPIL we regularly review the marketplace, meeting with fund managers and researching new funds to ensure our range is constantly evolving.
- We select only the best fund management groups with good track records.
- We collect feedback from our sales team, brokers and also monitor funds utilised in other areas within the Friends Provident Group to obtain a good indication of current market demands.
- We have over 200 funds in our range, catering for all risk profiles, which span most sectors and geographical regions.



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The Mirror Fund Range - your questions answered

How many funds can I invest in ?

You can invest in up to 10 funds at any one time.

What is the minimum investment?

The minimum investment varies depending on which plan you select. You can invest from £100 per month via Premier; a minimum of £1,000 per month via Premier Ultra, a minimum lump sum of £10,000 through Zenith (depending on regional variant) or £50,000 through Elite.

Each plan can invest in a range of mirror funds, meaning that you can access the underlying fund with a significantly lower minimum initial investment than if you invested direct. For example, a client takes out a Premier plan and opts to pay a monthly premium of £100 split equally across 10 mirror funds - to include the Thames River European Fund. The client has effectively invested into this fund with an initial investment of £10. If the client had invested directly into the Thames River European Fund the minimum initial investment would have been £25,000, with a £5,000 minimum applied to any additional investments.

Can I switch between funds within the range?

Yes, you can switch between funds at any time.

Can I invest in mirror funds without incurring a Bid/Offer spread?

Yes. Investment into the following plans is at bid prices:

- * Elite
- * Premier (not available to UK residents)
- * Zenith
- * Premier Ultra (not available to UK residents)

How can I find out what risk grade the funds have?

All our funds are risk graded from 1 to 5, with 1 being the most conservative and 5 carrying the most risk. The Risk/Reward Profile for all mirror funds can be found in our monthly Fund Prices and also on our website www.fpinternational.com.

Can I expect better terms by investing through an institution?

As an institutional investor FPIL can generally obtain better discounts/terms from investment houses than an individual. We pass these on to our policyholders.

Where can I find up to date information on the mirror funds?

Visit the Funds Centre at our website and you will find information on our entire mirror fund range including daily fund prices, monthly fund prices in pdf format plus current sales aids in the downloads section, guaranteed profits fund prices, fund fact sheets detailing fund objectives, fund manager commentary, asset allocation and performance, and a fund prices archive listing all back issues plus investment market commentaries which are updated weekly.

What fund charges can I expect?

All mirror fund charges are included in the unit price of the funds as opposed to encashing units. These include our fund administration charge of 1.2% plus the annual management charge of the underlying fund manager (from 0.1% to 3.35%). All fund performance data supplied is net of these charges.

The Mirror Fund Range - your questions answered (cont'd)

Do the funds grow free of tax?

All income and capital gains arising within the funds are reinvested within the fund. As FPIL are based in the Isle of Man (the world-leading jurisdiction for offshore insurance) it does not pay tax on income or capital gains within the mirror funds apart from any withholding of tax deducted at source. Therefore an investor's capital can accumulate entirely free of tax.

Can I gain access to my capital in a tax efficient manner?

Under UK tax law, an amount equal to 5% of the premium paid can be taken each year for a maximum of 20 years without incurring an immediate income tax liability. The ability to defer tax means that with proper, well structured planning and timing, funds can be extracted in a tax efficient way via withdrawals. Although true in the UK this may not always be the case depending on country of residence and an investor may be subject to personal tax liabilities.

Can I switch between funds without incurring tax?

By investing in a portfolio of FPIL funds via an offshore insurance policy, the investor can switch between funds without incurring any tax liability. Normally any fund disposals incur a tax liability if funds are held directly, depending on the investor's country of residence.

Warning: The above tax information is based upon our current understanding of UK tax law and Inland Revenue practice as at July 2008. The personal consequences of investing in a Friends Provident International Limited product will depend upon many factors. You may have a personal tax liability in respect of the proceeds of your plan. This will largely depend upon your country of residence. No liability can be accepted by Friends Provident International Limited for any personal tax consequences or for future tax or legislative changes. In all circumstances we strongly recommend investors to seek advice from their usual legal/ financial advisor.

What level of investor protection can I expect by investing with an Isle of Man company?

The Isle of Man Life Assurance (Compensation of Policyholders) Regulations 1991 provides up to 90% of an insurer's liability to the policyholder, in the unlikely event that the company should go into liquidation. There is no upper limit to the amount of compensation that can be paid.

The Isle of Man was the first offshore centre to be granted Designated Territory status by the U.K. This makes the Isle of Man one of the best regulated international finance centres in the world.

IMPORTANT NOTES

FPIL has produced this guide to mirror funds. It is for information only and should not be considered as a financial promotion. Whilst every effort is made to ensure the accuracy of the information, it should not be relied upon for buying and selling decisions.

It is important to remember that, as with most investments, the value of your clients' investment is not guaranteed and can go down as well as up. Therefore we suggest that your clients only invest money that can be committed in the medium to long term. Your clients should also bear in mind that securities held within a fund may not be denominated in the currency of that fund, so unit prices may fall purely on account of exchange rate fluctuations.

Past performance should not be viewed as an indication of future performance. Fund prices may go up and down depending upon investment performance and are not guaranteed. Your clients may get back less than they paid in. Fund prices and performance figures are net of annual charges.

The unit-linked products through which your clients may invest in this fund are not designed for early surrender and a discontinuance charge may be applied. These funds are intended for medium to long-term investment.

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Incorporated company limited by shares. Registered in the Isle of Man No. 11494

Authorised by the Isle of Man Insurance & Pensions Authority and regulated by the Financial Services Authority for the conduct of investment business in the UK.

Provider of life assurance and investment products.

The rules and regulations made by the Financial Services Authority for the protection of investors will not normally apply to persons resident outside the United Kingdom.

All policyholders will receive the protection of the Life Assurance (Compensation of Policyholders) Regulations 1991 of the Isle of Man, wherever their place of residence



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