



## FRIENDS® Guaranteed Bond



**FRIENDS PROVIDENT**



Your life,  
your future,  
your investment.

You want to invest to make your money grow, but on the other hand you don't want to risk losing it either. If so, then the FRIENDS® Guaranteed Bond from Friends Provident could be the investment for you.

It allows you to invest your money in a potentially tax-efficient way, with the aim of sharing in the growth potential of the stock market. But it also gives you the reassurance that you won't lose any of the money you're putting in, provided you don't cash it in within the first five years.

### Benefits at a glance

- A guaranteed minimum payment on death
- A guaranteed minimum payment if you cash in your bond at any time after five years
- The guaranteed minimum payment is at least the amount you pay in
- Good capital growth potential through a purpose-built 'Capital Assured Fund'
- You can view the value of your bond online at any time to see how it's doing
- Option to convert to our FRIENDS® Investment Bond at any time after five years.

During the first five years the value of your FRIENDS® Guaranteed Bond can go up and down depending on how well the investments perform. If you cash in within the first five years, the guaranteed minimum payment will not apply and we'll make a charge. You could get back less than you've paid in.

After five years, the value of the bond can still go up and down but you are guaranteed to receive back at least your original investment.

## What is the FRIENDS® Guaranteed Bond?

It's a lump sum investment that allows you to invest £10,000 or more in the stock market in a potentially tax-efficient manner. But where this bond differs from many others is the guarantees it offers.

If you cash in your bond at any time after five years, you are guaranteed to receive back at least what you paid in. Of course if the stock markets have performed well, as we all hope, then the amount you receive back could be considerably more.

An extra feature of this bond is that it has the potential to lock in growth. The guaranteed minimum payment, initially equal to the amount you pay in, can rise after five years and these rises will be locked in. So, whatever happens to the stock markets, after five years the guaranteed minimum payment is the least you will receive back.

During the first five years you can cash in your bond but we will make a charge (please see page 6 for more information). You could get back less than you've paid in.

If you die, your bond will end and we'll pay a death benefit. This will be the guaranteed minimum payment or 100.1% of the value of units if higher. Your bond can be set up on a joint life second death basis so the death benefit is only paid when both of you have died.

At any time after five years you can convert your FRIENDS® Guaranteed Bond to our FRIENDS® Investment Bond and have a range of different funds in which to invest. There is no charge for doing this but the guarantees will no longer apply.

For greater long-term flexibility we set up your bond as a minimum of twenty identical policies.

We explain all these features in more detail over the coming pages.

If you decide this bond is the investment you are looking for, then please read the FRIENDS® Guaranteed Bond key features. Your financial adviser will be able to answer any questions you may have.



## The guarantees – security for your money

### There are two guarantees with this bond

Firstly, from the day you invest in the latest series of our Capital Assured Fund, there is a guaranteed minimum payment on death, equal to the amount you pay in. If you die, we will pay the guaranteed minimum payment or 100.1% of the value of your bond – whichever is higher. So if you are investing money you hope to pass on as a future inheritance, you can be reassured the amount paid on death will never be less than the amount you originally invested.

Secondly, once your money has been invested in the bond for five years, the guarantee also covers the amount you will receive if you decide to cash in your bond at any time thereafter.

And after you've held your bond for five years, we may increase the guaranteed minimum payment it provides.

We will work out the value of your units assuming you could have sold them at the highest fund price achieved in the first six months since we launched that particular fund series. If this figure is more than your guaranteed minimum payment, on the fifth anniversary of your bond, we will increase your guaranteed minimum payment to the higher figure.

Every business day after that, we will work out the current value of your units. We will take 80% of this value and compare this figure to your guaranteed minimum payment. If this is more than your guaranteed minimum payment, we will increase your guaranteed minimum payment to the higher figure. This will first happen when the current value of your units exceeds your guaranteed minimum payment by 25% and will 'lock in' 80% of any growth above 25%.

So if you decide to cash in your bond at any time after five years, you'll receive back either the current value of your bond or the new guaranteed minimum payment, whichever is the higher.

The value of your FRIENDS® Guaranteed Bond can go up and down. Once you've held the bond for five years, you are guaranteed to get back at least your original investment. Please remember inflation will reduce the future buying power of the guaranteed minimum payment.





## Where your money is invested – The Capital Assured Fund

The money you invest buys units in the latest series of our Capital Assured Fund – your personal illustration will show which. The Capital Assured Fund aims to offer smoothed returns from investment markets around the world, while providing some protection against stock market falls.

We place all of our funds into risk bands ranging from 'Low' to 'High +'. The Capital Assured Fund is rated as 'Low +'.

The Capital Assured Fund consists of a special fixed interest investment to provide the guaranteed minimum payment and the Barclays Dynamic Tracker Fund to provide the extra growth potential. The balance between these two varies automatically depending on market conditions.

If the stock market is performing well then more is invested in the Barclays Dynamic Tracker Fund and less in the special investment. If the stock market is falling then the opposite happens. We show this relationship in the diagrams below.

The Barclays Dynamic Tracker Fund aims to mirror as closely as possible the performance of a basket of market indices, covering UK and overseas shares, commodities, fixed interest and property-related securities, each of which can go up and down in value.

Because part of the Capital Assured Fund is always invested to provide the guaranteed minimum

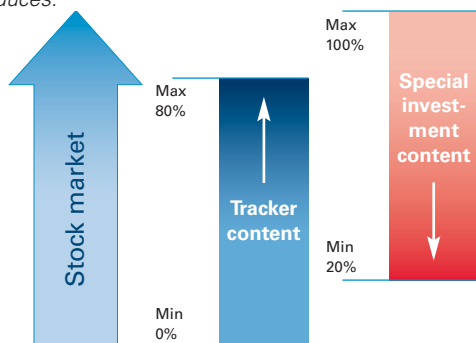
payment, we expect the fund to deliver less growth than the markets that it tracks. Please be aware investment values for:

- fixed interest securities can go up and down as interest rates change
- overseas markets can go up and down simply because of changes in currency exchange rates
- emerging markets can move sharply down or up as they tend not to be so well regulated as developed markets and where political unrest is more likely
- properties depend on individual views of the valuers
- commodity markets can move up and down sharply depending on supply and demand.

If the markets in which the tracker fund invests fall, the proportion of the fund invested in the tracker will also fall. If the markets were to continue to fall, the proportion of the fund invested in the tracker could reduce substantially, even to zero. If this were to happen, your bond would still provide a guaranteed minimum payment if you cash it in after five years or if you die. However, the prospect for your bond achieving any further investment growth would be severely restricted.

### Stock market goes up

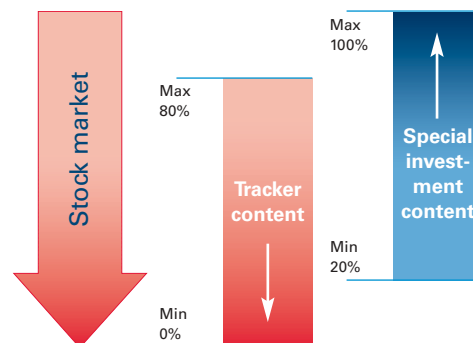
When the **stock market is rising**, the tracker fund content increases to offer you the potential for more capital growth and the special investment content reduces.



The fund series starts with a maximum tracker content of 55% and a minimum special investment content of 45%. From six months after launch, the tracker content could rise to a maximum of 80% with the special investment content falling to a minimum of 20% depending on market conditions.

### Stock market goes down

When the **stock market is falling**, the tracker fund content decreases and the special investment content increases to protect against severe falls.



If the tracker fund continued to fall, the tracker content could reduce substantially, even to zero, and the prospect for any further growth would be severely restricted.



## Keeping up-to-date with your bond

With a FRIENDS® Guaranteed Bond you can check the value of your bond whenever you want on our website. All you need to do is register at [www.friendsprovident.com/customer](http://www.friendsprovident.com/customer).

Six months after the launch of the Capital Assured Fund series you buy units in, we'll write to you. We'll let you know if the guaranteed minimum payment after five years will be increased and, if so, to what level.

We'll also send you a valuation statement each year showing the bond's value and the guaranteed minimum payment at that time.

## Bond Charges

The annual management charge for the FRIENDS® Guaranteed Bond is currently 2.0% a year. We take this charge from the Capital Assured Fund before we work out the unit price.

If you cash in your bond in the first five years, we take a discontinuance deduction from the value of the units. The deduction reduces over the first five years and is a percentage of the value of units you cash in:

Year units cashed in:	1	2	3	4	5
Deduction (%):	6.0	4.8	3.6	2.4	1.2

## Option to convert your bond to a FRIENDS® Investment Bond

At any time after five years you may decide you no longer need the guarantees provided by your bond. If so, you can convert your FRIENDS® Guaranteed Bond to our FRIENDS® Investment Bond which has no guarantees. There is no charge for doing this.

By converting to the FRIENDS® Investment Bond you will have a choice of different funds in which to invest. The value of your bond will then be based on the total number of units you have in each fund. The guaranteed minimum payment will no longer apply. You could get back less than you've paid in. If you die, the death benefit will be 100.1% of the value of your units.

Some investment funds carry a higher level of risk than others and the annual charges on some funds may be more than the annual charges on the Capital Assured Fund. *We'll send you details of the funds available, their aims, charges and risk ratings, before the end of the fifth year.*

If you want to, you can switch between funds. The first 12 switches in each bond year currently are free. We charge £15 for each extra switch.

After converting to the FRIENDS® Investment Bond, you will be able to take regular withdrawals or partial encashments from your bond. Whenever you take regular withdrawals or partial encashments, we'll cash in units to make the payments and the value of your FRIENDS® Investment Bond will reduce. You can pay in further amounts of £10,000 or more at any time.

You should speak to your financial adviser before converting your bond. Once you convert policies to the FRIENDS® Investment Bond, the guaranteed minimum payment will no longer apply and you will not be able to convert them back or invest them again in the Capital Assured Fund.

## Tax-efficient features

### The tax position of investment bonds

With the FRIENDS® Guaranteed Bond you have no personal liability to basic rate income tax or capital gains tax on the bond.

However, you could be liable to higher rate income tax when you cash in some or all of your bond, or if you take regular withdrawals after converting to a FRIENDS® Investment Bond.

The amount of any age-related personal allowances, Working Tax Credit or Child Tax Credit may also be affected.

Please remember tax rules may change.

### Tax on withdrawals

If you convert to a FRIENDS® Investment Bond, you can take regular withdrawals or partial encashments from your bond. You can take up to 5% of your original investment each year for 20 years without any immediate income tax liability. Any unused allowance can be carried forward for use in future years. For example, if you convert to a FRIENDS® Investment Bond in year six, you could take 30% (6x5%) of your original investment just for that tax year, without any immediate income tax liability.

Regular withdrawals and partial encashments are classed as withdrawals for this purpose.

### Minimising tax when cashing in your bond

It is important to time your bond encashment carefully. If you cash in your bond when your income is lower, for example during retirement, you could reduce or eliminate any higher rate tax liability.

When you die, your personal representatives could be liable for any higher rate tax liability.

### Effective inheritance tax planning

When you die, the value of your bond forms part of your estate for inheritance tax purposes. However, there are various ways to reduce or even eliminate any inheritance tax liability.

FRIENDS® offer *Trust and Investment Solutions*, which aim to cater for most inheritance tax planning needs you may have. These solutions can help to meet your financial needs during your lifetime and enable you to leave a tax-efficient inheritance for your family when you die.

Please ask your financial adviser how an investment bond would affect your personal tax position. They will be able to identify any individual tax planning needs you may have and advise you of the tax-efficient features available from your bond.



## Next steps

If you feel the FRIENDS® Guaranteed Bond is the investment opportunity you are looking for, please read the key features.

Your financial adviser will be able to help with any questions you may have and assist you in applying for your bond.

## About FRIENDS®

- FRIENDS® is one of the leading financial services groups in the UK and a member of the FTSE100 Index leading UK companies.
- Founded by Quakers in 1832 to address social needs, FRIENDS® has renowned ethical heritage.
- We pride ourselves on delivering award-winning service to our customers, both new and existing.

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