



The G.E.C. 1972 Plan

AVC Investment Guide

Marconi

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> Introduction

Additional Voluntary Contributions (AVCs) are tax deductible payments that you can make in addition to the normal contributions you pay to the G.E.C. 1972 Plan.

AVCs are invested in the funds which you choose from the available range, over the period of your membership to retirement age. The accumulated value of your AVC account is then used to provide additional benefits, over and above your main Plan entitlement.

The Trustee of the G.E.C. 1972 Plan is pleased to introduce the investment choices for AVCs.

The Trustee is confident that the range of funds provides members with the opportunity to participate in investments appropriate to their diverse needs.

From 6 April 2002 all Plan members will be able to choose from any one or a combination of the investment options.

To assist members in selecting appropriate options from the range of funds being offered, the Trustee is issuing this investment guide. The purposes of the guide are:

- **Part One**

To provide members of the G.E.C. 1972 Plan with factual information.

- **Part Two**

To assist members in making informed and considered investment choices.

Marconi and the Plan Trustee hope that you will find the content of this guide both interesting and helpful in planning your savings for your future retirement. Members' rights are governed by the Trust Deed and Rules.



> Part One

Information on your AVC options

> The investment choices

The Trustee offers members a choice of five specific investment funds from Merrill Lynch and a with-profits fund from the Standard Life Assurance Company.

Merrill Lynch Investment Managers

Merrill Lynch Investment Managers is one of the largest fund managers in the world and currently manages more than £380 billion for its clients.

The Trustee has chosen a range of funds offered by Merrill Lynch. These include funds with an emphasis towards providing future capital growth (above inflation), suitable for medium-term to long-term investors. Also included are investment funds which may be considered more appropriate to members approaching retirement age, who are seeking greater levels of security.

The range being provided

Merrill Lynch DC funds

- **UK Growth Fund**

Primary aim

- Long-term capital growth with a focus on UK equities.

- **60/40 Global Growth Fund**

(60% invested in UK equities and 40% overseas equities)

- Long-term capital growth with a broader mix of UK and overseas equities.

- **Balanced Growth Fund**

- Long-term capital growth with a general mix of UK and overseas equities, property, fixed interest and cash deposits.

- **Pre-Retirement Fund**

- Protecting the level of AVC retirement income as you approach retirement, by investing in fixed interest investments e.g. gilts.

- **Cash Fund**

- Capital security and stable returns.

For a more detailed description of the individual funds and how they are invested, please refer to the literature provided by Merrill Lynch, which can be found in the back of this guide.

The Standard Life Assurance Company

With-Profits Fund

Standard Life has been appointed by the Trustee to offer a with-profits fund.

The primary aim of the With-Profits Fund is to provide stable and consistent returns over the long term, whilst maintaining an appropriate level of financial security.

The Standard Life With-Profits Fund achieves this by investing a high proportion of assets in equities, which may reasonably be expected over the long term to deliver returns ahead of inflation, but this is not, of course, guaranteed.

The Standard Life With-Profits Fund is able to smooth out the potential peaks and troughs associated with direct equity investment by the following means:

- Through the operation of a bonus system, a proportion of the investment return achieved is held back in a good year, to allow for higher bonus allocations in poor years. A proportion is also held back to smooth out future variations in investment markets and for future distribution to long-term investors.
- Standard Life is a mutual life assurance society. In essence, this means that members, and not shareholders, will benefit from the investment returns achieved by the With-Profits Fund.

- With this type of fund, the member has (over the long term) a realistic expectation of achieving investment returns above inflation, whilst being protected against any short-term fall in value. However, it is important to recognise that the protection for the investor could ordinarily result in lower returns than, say, a direct equity fund.

There are capital guarantees attached to this type of investment, but they only apply:

- **at the Plan retirement age of 65; or**
- **in the event of death before retirement.**

In these specific circumstances, Standard Life will guarantee to pay out the full value of your accumulated AVC account, including all previously applied bonuses.

In all other circumstances of withdrawal from the With-Profits Fund, Standard Life reserves the right to adjust the With-Profits balance paid out, if circumstances should dictate that they do so, to protect the remaining investors in the With-Profits Fund. This is referred to as a Market Value Adjustment (MVA). For example, it may choose to do so in circumstances where investment markets have fallen at a time when you choose to move your AVC funds elsewhere or draw your Plan pension other than at age 65.

In essence, this fund aims to provide sound investment returns ahead of inflation, based on the underlying performance of the fund over a number of years.

> What are the charges?

The Trustee has negotiated improved investment terms compared to those generally available, for both the Merrill Lynch investment funds and the Standard Life With-Profits Fund. The terms offered to members can be considered very competitive when compared to alternative AVC investments, e.g. Free Standing AVCs (FSAVCs).

Members should note that, whilst there are differences in investment charges between the various new fund choices being provided, this should not necessarily be the only deciding factor when choosing your investment options. You should base your decision on the range of general investment considerations described in this investment guide.

For details of the fund charges of Merrill Lynch and Standard Life, please refer to the section "Investment terms for AVCs" on page 6.

> Who monitors the Plan AVC investment options?

The Trustee has extended the range of investment options for your AVCs in order to provide a straightforward and, hopefully, rewarding investment approach. There is, however, no guarantee of the value of the AVC fund accumulated by retirement age or the amount of pension that the resultant fund can buy at that time.

The Trustee has requested its investment advisers to review these investment options and the providers, Merrill Lynch and Standard Life, at regular intervals. Any future amendments will be notified to members along with the relevant information that members will need to consider.

Having said this, individual members will be responsible for monitoring the particular AVC investment fund(s) chosen and reviewing these to ensure they remain appropriate. The Trustee will provide, at least annually, updates of the AVC funds' performance.

Members may wish to consult an independent financial adviser for specific advice about their AVC investment options.

> How can I monitor my AVC account?

You will receive annual statements detailing the contributions paid to your AVC account and the account value at the statement date.

In addition, you will be able to access further information about the investment fund options, etc. directly from the providers:

For Merrill Lynch DC funds	For Standard Life fund
<ul style="list-style-type: none">● Website address www.mlim.co.uk/pensions/marconi	<ul style="list-style-type: none">● Website address www.standardlife.co.uk
<ul style="list-style-type: none">● Via e-mail MLIM_Enquiries@shp.uk.com	<ul style="list-style-type: none">● Via e-mail service_gmp@standardlife.com
<ul style="list-style-type: none">● Helpline 0845 88 00 354	<ul style="list-style-type: none">● Helpline 0845 606 0086

If you require any further information, please contact:

Marconi Pensions Department on: 01785 785 503

> Investment terms for AVCs

Merrill Lynch funds

The following investment charges apply to the respective investment options:

- All funds:
 - No charges are applied to contributions being invested. Therefore, for every £100 paid as an AVC, £100 worth of units are purchased in your chosen fund.
 - There are no policy/administration fees.
 - The individual funds have an explicit fund management (investment) charge. This charge is reflected in the unit pricing of the funds:

UK Growth Fund

0.9% per annum

60/40 Global Growth Fund

0.75% per annum

Balanced Growth Fund

0.75% per annum

Pre-Retirement Fund

0.65% per annum

Cash Fund

0.65% per annum

Standard Life With-Profits Fund

Standard Life offers the With-Profits Fund, with the following charges applied:

- The method of investment used for this contract means that for every £100 paid, £100 worth of with-profit units are purchased in your individual account.
- There are no other explicit charges levied, e.g. policy/administration charges.
- All expenses associated with running the With-Profits Fund e.g. investment charges, are inherent within the (net) bonus rates declared.

If you want further information about the Standard Life With-Profits Fund, Standard Life provides a With-Profits Guide (refer to page 5 for contact details).

> What do I do next?

All application forms are available from your Payroll and Personnel Office. These should be completed and returned to your Payroll Office.

Contributions

You decide how much you would like to contribute to boost your retirement benefits from the G.E.C. 1972 Plan.

You can make AVCs as regular payments or as a lump sum payment directly from your gross salary, through the payroll system.

The maximum you can contribute is 15% of your total taxable pay, less the amount of your regular contribution to the G.E.C. 1972 Plan.

Please refer to the main G.E.C. 1972 Plan booklet for further details relating to maximum contributions and benefits.

Switching between funds

You will have the option to switch your Additional Voluntary Contributions between the Merrill Lynch and Standard Life funds (at any time) by completing the appropriate forms.

Transfer to other funds

Should you leave Marconi service without retiring on pension or taking a refund of your contributions, you will be able to transfer your main fund benefits, either to another employer's pension fund or to an individual pension arrangement. In this case, the value of your AVC fund will be transferred at the same time, normally after being "cashed in".

Pension conversion on retirement

When you commence payment of your main Plan benefits, your AVC Fund will be "cashed in" and used to provide appropriate additional benefits for you at the time of retirement. Details will be provided by the Pensions Department.



> Part Two

Some guidance on your AVC options



> Why is choosing the right investment option very important for you?

With the choices now available to you, it is very important that you take time to consider your future retirement needs and, in so doing, consider which investment options are most suited to those needs.

In making your future choices, you will need to consider various factors including the following:

- How will the different investment choices affect your retirement savings?
- What effect will your current age and anticipated retirement date have on your future investment choices?
- To what extent are you comfortable/confident about making investment decisions and how much control do you feel you need or want?
- What is your level of tolerance for investment risk, both in the short and long term?
- Are you considering early retirement or improving dependants' benefits?

> What are the important things to consider when investing for retirement?

It is important that you are aware of the investment risks that you face when investing for retirement and how different types of investments may be more appropriate for different times during your working life.

The three main risks and the types of investment that can be used to deal with these risks are outlined below:

- **Inflation Risk** – the risk that inflation will erode the purchasing power of your AVC fund. This can be a very significant risk when you are investing over a long period for retirement. The generally accepted way to overcome this risk is to place your AVCs in investments that are likely, in the long term, to provide capital growth at a rate better than the rate of inflation.

Historically, the types of investments that have achieved this are equities. Whilst the value of equities may fluctuate (i.e. they may go down as well as up, particularly in the short term), they have, in the past, produced returns above the rate of inflation over longer-term periods, e.g. five to ten years or more. Over such time periods, your investments should have time to ride out any short-term falls in the value of equity markets. Remember, however, that past performance is not necessarily a guide to or guarantee of future events.

- **Pension Conversion Risk** – the risk that your AVC fund does not reflect the changing costs of purchasing an income in retirement. When your Plan pension commences, your AVC fund is converted into an income by purchasing an annuity (i.e. an income for life). The rate at which you convert your AVC fund to an annuity varies with market conditions.

One of the factors that determines the cost of many annuities, including those bought through the Plan, is the price of fixed interest investments, such as Government and corporate bonds. Investing in a range of Government and corporate bonds may therefore help protect against the pension conversion risk. This is because the variations in their value may more closely reflect the variations in the cost of purchasing an annuity

than other types of investment. You should note that this approach is unlikely to match exactly the changes in the cost of buying an annuity. The value of Government and corporate bonds can also fall as well as rise when held in an investment fund.

- **Capital Risk** – the risk that your AVC fund may fall in value. This is the most obvious and widely understood of the investment risks. It is important that you select investments which are appropriate to protect yourself against this risk as you get closer to retirement, since your fund may not have sufficient time to recover any significant reduction in value.

To overcome capital risk shortly before retirement, it may be appropriate to invest in cash deposits. Cash deposits may also be appropriate for any portion of your AVC account that you may be able to take as a tax-free lump sum (if any).

Cash deposits are similar to bank and building society accounts where interest is added to your account. The returns over the long term for cash deposits are generally not expected to be as high as returns for either equities or bonds.

> What is your attitude to risk?

Your attitude to risk will affect and possibly be the overriding consideration guiding your choice of the type of fund(s) you invest in.

It is generally accepted that, where the level of potential investment return is higher, the level of capital security provided is lower. Conversely, those investments that offer a high level of capital security will generally provide relatively lower growth potential. This is termed the “risk versus reward trade-off”.

The following paragraphs provide suggested definitions of a low, medium and high risk investor profile.

- **Low risk/low return** – This type of investor is cautious and is likely to be closer to retirement, e.g. less than five years to retirement age, and therefore seeking to minimise capital risk. This person’s priority is security and not investment/capital growth, and therefore they accept that investment returns may be lower as a result.
- **Medium risk/moderate return** – This type of investor may have a longer period, e.g. more than five years to go to retirement and feels able to accept some investment risk in return for higher returns. This person is generally not prepared to see the value of his or her savings fluctuate widely in the short term. This type of investor may have other investment savings, and is less concerned with capital security and accepts that investments may go down as well as up.

- **High risk/high return** – This type of investor is seeking to maximise his or her potential for future capital growth over the long term, e.g. ten or more years. This person will probably have other savings and appreciates that the value of their AVC account could potentially increase or decrease substantially, over both the long and short term.

Your personal circumstances and preferences may dictate the level of investment risk you are prepared to take.

Additionally, your attitude to risk may vary according to:

- your age and proximity to your likely retirement date;
- whether you are considering pension investments or other investments; and
- your personal preferences.

It is also quite likely that your attitude to risk will change over time.

It is very important that you review your chosen investments on a regular basis.

> Investment of Plan AVCs

Your goal in making AVCs should be to maximise the value of your account while managing the risks associated with your investment. The way you invest your AVCs now and in the future can have a significant impact on the level of your retirement income.

The investment choices provided by Merrill Lynch and Standard Life provide very different approaches, as described below.

The table below indicates how each investment fund might address the particular investment risks referred to earlier. It also highlights the risk profile of each fund and its objective.

Fund	Level of Risk		
	Inflation Risk	Pension Conversion Risk	Capital Risk
Merrill Lynch DC:			
UK Growth	Low	High	High
60/40 Global Growth	Low	High	High
Balanced Growth	Low	High	High
Pre-Retirement	Medium	Low	Medium
Cash	High	High	Low
Standard Life:			
With-Profits	Low to Medium	High	Medium

An example of a possible investment approach

The following graph opposite illustrates a possible investment strategy and how it might change over time as you approach retirement. Please note that this is not a recommendation.

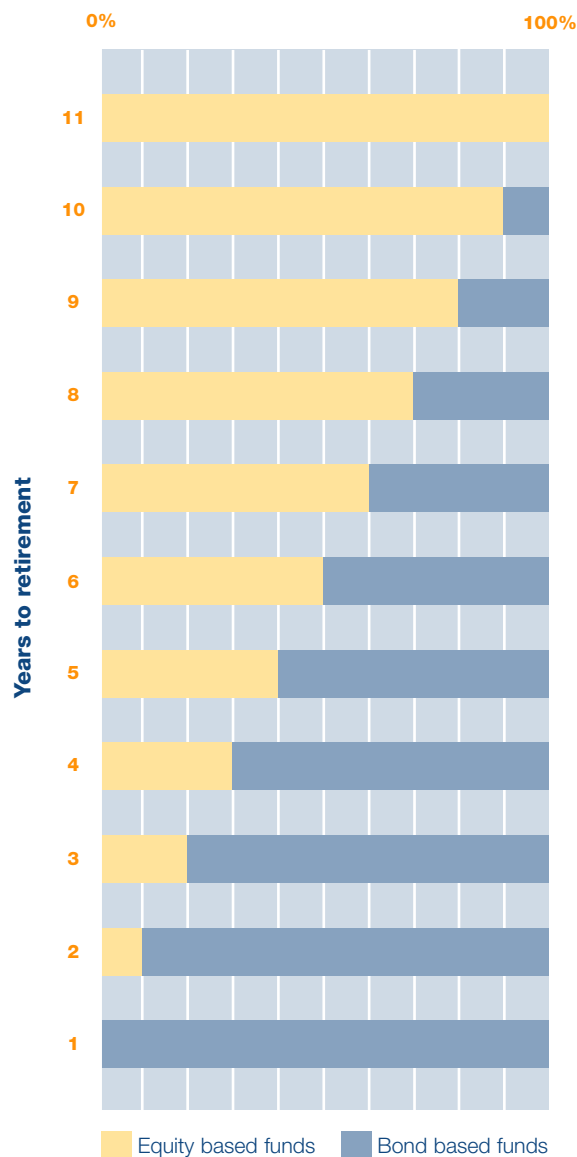
Whilst you are a long way from your anticipated retirement date (for example, five to ten years or more), your primary focus is likely to be on achieving real capital growth (i.e. above inflation) on your AVC investments. To achieve this objective, you may select from any one or a range of the investment options provided by Merrill Lynch and/or Standard Life. Please refer to the providers' fund literature for detailed descriptions of the options now available to you.

Your selection of an appropriate fund or funds will depend upon your attitude to risk as described earlier in this guide and may be influenced by external factors, such as alternative savings you already have, etc.

As you approach retirement (for example, within five years), it is important to recognise the change in emphasis toward the protection of the capital you have built up and the need to secure the retirement income that your fund can generate.

The AVC investment options under the G.E.C.1972 Plan have been chosen to provide you with a range of choices and flexibility in meeting your particular objectives.

Percentage of AVC Assets

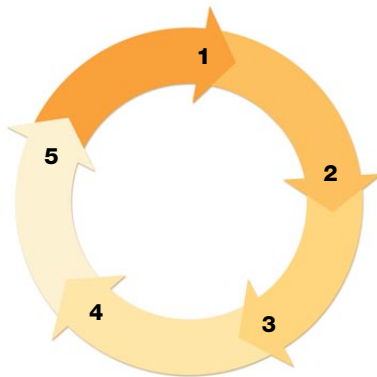


When making your selection/selections, it is important to remember that, with the exception of the Cash Fund, the Merrill Lynch funds can fall as well as rise in value. Your AVCs in the Standard Life With-Profits Fund cannot fall in value on retirement at age 65 or on death, but the value of your AVCs is not guaranteed at other times.

> How does paying AVCs fit in with your overall planning for retirement?

The planning process

Planning is an ongoing process starting from identifying your needs to determining how to fulfil those needs. The following illustrates the planning process. It is important to understand that, once you have started to plan, you will need to monitor the success of your plan and determine whether your needs have changed.



- 1 What do I want in retirement, and when?
- 2 What have I got?
- 3 Is there a gap, if so, how big?
- 4 How can I fill the gap?
- 5 Am I still on track?

Different sources of retirement income

When planning for retirement, you should consider all the sources of income you are likely to receive, not just your benefits from the Plan. These sources could include:

- State pensions
- Pension from any AVCs you have made
- Pension benefits from previous employments
- Income from other savings and investments

Projections of your State pensions can be obtained from the Department for Work and Pensions (by using its form BR19), and projections of benefits from any previous pension arrangement can be obtained from the relevant previous employer or direct from the pension provider/administrator concerned.

To help you decide on the level of AVCs that you may wish to make, you can ask for a projection of the level of benefit you are likely to receive from making AVCs. This projection will be based on various assumptions, so there is no guarantee given in the projection about the level of benefit you may receive. The AVC projection (available from Merrill Lynch or Standard Life) will only be an estimate of the possible benefits you might receive.

It is important that you review the level of your expected retirement income to ensure that it is sufficient to meet your retirement benefit objectives.

Please remember that AVCs are just one of the possible methods by which you can increase your retirement benefits. You will need to consider which method, or combination of methods, is appropriate in your particular case.

> What about other savings products, e.g. Individual Savings Accounts (ISAs)?

When thinking about making AVCs to the Plan, you need to consider these in the context of your overall savings strategy. You therefore should review the pros and cons of alternative savings vehicles, for example ISAs. While AVCs attract favourable tax concessions, AVC benefits are generally available only on retirement and, for most members, only in pension form. It may be that you need a mixture of savings vehicles to meet your different investment needs.

> Additional benefits

Death in service contributions

It is possible to provide additional death in service benefits by the use of AVCs. This benefit is insured by the Trustee and contributions are paid monthly, along with your pension contributions. Details of this option are available from the Pensions Department. Please be aware that any contributions you pay towards death in service benefits will count within the maximum contribution allowable by the Inland Revenue.

> What about Stakeholder pensions?

In April 2001, the Government introduced a new way of saving for retirement through a Stakeholder pension arrangement. Pension scheme members who are in an occupational scheme (such as the Plan) and whose P60 earnings are less than £30,000 a year (currently) can choose to invest in a Stakeholder pension instead of, or as well as, in AVCs. There are limits to the contributions members can invest in both the Plan and Stakeholder arrangements, and there are significant differences between these two types of pension plan. The actual rules on eligibility to contribute to a Stakeholder pension are complex and you may wish to take independent financial advice to confirm whether you are eligible.

For further information, you may like to refer to the OPRA Stakeholder website www.stakeholder.opra.gov.uk.

For assistance in selecting an independent financial adviser (IFA), you may wish to refer to the IFA Promotions website, www.ifap.org.uk or call the helpline on 0800 085 3250.

> What about members who have Free-Standing AVCs (FSAVCs)?

If the AVC options arranged by the Trustee do not meet a member's needs, they may take out an FSAVC.

Members who have personally arranged AVC policies (FSAVCs) should be aware that there are a number of differences between making AVCs in the G.E.C. 1972 Plan and buying an FSAVC, including:

- AVCs in the Plan are likely to be invested on relatively more attractive and competitive pricing terms compared to FSAVCs, because they have been negotiated on a group basis and will usually involve lower investment and administrative charges. In addition, no money will be deducted from your AVC account in the Plan to meet a sales representative's bonus or an independent financial adviser's commission.
- Currently, the AVCs you make to the Plan can only be invested in the range of funds offered. You may gain access to a larger range of investment fund options via an FSAVC policy.

- Contributions to an FSAVC policy may be continued if you leave Marconi plc's employment and you subsequently join another employer's occupational pension scheme. AVCs to the group facility under the G.E.C. 1972 Plan have to cease if you leave Marconi. However, you could, if you wish, transfer the value of your AVC account, along with your main Plan benefits, to a new employer's pension scheme. In any event, you could consider paying AVCs to that scheme in the future.

If, however, you are in any doubt as to the suitability of AVCs or, any alternative investment options, you should seek professional independent advice.

Important Note

Please note that this investment guide is designed to help you manage your AVCs.

It offers information and general guidance to help you make appropriate decisions in respect of AVCs for your retirement. It does not provide investment advice, nor does it take the place of an independent financial adviser.

All the information in this guide is based on the current (i.e. in 2001/2002) tax rules and legal framework, and these may be subject to change.



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