

the alternative investments fund

a new way to balance your portfolio

guide for investors



the alternative investments fund – adding balance to your portfolio

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about skandia investment group

Skandia Investment Group (SIG) brings together all of Skandia's investment research, analysis and product expertise under one structure. This capability underpins the Skandia Investment Management Limited (SIML) range allowing Skandia to offer innovative single manager and MultiManager mutual funds to investors around the globe.

not heard of us?

If you are not familiar with the name Skandia it's probably because we don't sell directly to the public. However, your financial adviser will almost certainly know our reputation for excellence in product design, administration and service.

Skandia was launched in the UK in 1979, and today is one of the UK's top ten providers of long-term savings. It is part of Old Mutual plc, a multi-national savings and wealth management company (and one of the largest in the UK) which manages more than £245 billion* of clients' funds worldwide.

We believe in the value of professional financial advice, and your financial adviser is the best person to help you decide the right course of action.

Skandia does not give investment advice. Our role is to provide your adviser with all the investment options they need to create tailored solutions for you.

**as at 31 March 2009*

the aim of this brochure

The aim of this brochure is to explain the Alternative Investments Fund and help you decide whether it could be a suitable addition to your portfolio.

We strongly believe that investment decisions should be made with the guidance of financial advisers, which is why we only offer our investment solutions through their recommendation.

a whole new world of investment opportunities

The Alternative Investments Fund is an innovative solution which brings you a series of new opportunities:

- To invest in 'alternative' asset classes, many of which were not previously available to individual investors.
- To reduce the level of risk across your existing portfolio through diversification.
- To benefit from potentially strong returns over the longer term (five years or more).
- To benefit from the experience of a market leader in multi-manager investing.
- To capitalise on the expertise of a range of specialist fund managers in a single fund.



your chance to look beyond the conventional

Conventional assets, such as shares, have the potential to bring high returns when markets are performing well, but what about when they are not?

No matter how small or large your investment portfolio, your financial adviser has probably spoken to you about the value of building an element of diversity within it. The aim is to counterbalance the risk of poor performance across your entire portfolio.

Recent years have seen sharp rises and falls in the market. This applies almost equally to all conventional investments with many investors losing money, even in assets traditionally viewed as low-risk.

Alternative investments, as the name suggests, are very different from these conventional assets and therefore have the potential to perform well even when stock markets do not.

what are alternative investments?

The term 'alternative investments' is used to describe a variety of non-traditional assets and investment strategies you can invest in as an alternative to conventional assets such as shares, fixed interest investments and property. Alternative assets can include things as diverse as precious metals, infrastructure and commodities, to name just a few.

Normally, to get the best out of such investments requires an in-depth understanding of their specific features – or the help of someone who has the relevant expertise.

In the past, it has been difficult for individual investors to access alternative investments. For many of the asset classes, high minimum investments have proved prohibitive to all but institutional investors, such as pension funds, or the very wealthy. Also, taken individually, some of these investments can rise and fall rapidly and are not for the faint-hearted.

our fund is different

We are able to offer a fund that blends a selection of alternative investments, chosen by our experts, which is accessible to individual investors.

Also, because the investments within the fund are selected for their likelihood to perform differently from one another, the ups and downs of individual investments can be balanced.

You should remember that past performance of an investment is not a guide to future performance.

about the alternative investments fund

The Alternative Investments Fund is a MultiManager fund that invests in a wide variety of different alternative asset classes. Each investment is managed by specialist experts from other companies, carefully selected using our in-depth experience in fund manager selection.

The investments in the fund have been blended with the aim of keeping the variability of returns comparatively low. Over any twelve month period the fund aims to achieve positive returns, whatever the market conditions. That, along with performance likely to be very different from that of conventional assets, should make it an attractive diversifier that will complement other investments in your portfolio.

However, you should be aware that, as with any other fund, what you get back will depend on investment performance and is therefore not guaranteed. The value can fall as well as rise and it is likely that there will be periods of up to several months when investment returns may be negative.

When you cash in your investment, you may get back less than you invested, especially in the early years.



over any twelve month period, the fund aims to achieve positive returns, whatever the market conditions

who might it be suitable for?

With minimum investment criteria in line with conventional types of investment, the Alternative Investments Fund makes previously inaccessible asset classes available to all private investors. If investing through an OEIC for instance, the minimum investment is a £1,000 lump sum or £50 per month.

It is likely to appeal mostly to investors who already invest in conventional assets and wish to reduce their dependence on traditional investments such as shares.

What is an OEIC?

OEIC stands for Open-Ended Investment Company and is a type of investment fund.

Diversifying into a fund such as this can reduce the potential for significant capital loss, so may well appeal to an investor wanting to add an element of predictability to an existing portfolio while retaining the potential for attractive returns.

Some of the alternative asset classes are accessed by investing in companies operating in the relevant area. For example the fund invests in companies involved in the water industry, rather than the commodity itself.

In order to reduce the resultant exposure to the normal ups and downs of the stock market, a strategy may be employed involving derivatives. The use of derivatives should enhance returns when shares are falling. However, anyone considering investing in the fund should understand that it is likely to reduce investment returns in times when stock markets are rising.

What is a derivative?

This is a contract between two or more parties whose value is derived from an underlying asset. The most common underlying assets include shares, fixed interest investments, commodities, currencies, interest rates and market indices. Derivatives are generally used to reduce risk, as in the Alternative Investments Fund, but can also be used for speculative purposes.

things you need to be aware of

You should appreciate that there are inherent risks in all types of investments. There can be no guarantee that the objectives of this fund will be achieved.

The Alternative Investments Fund makes use of investment strategies, as permitted by our regulator, the Financial Services Authority (FSA).

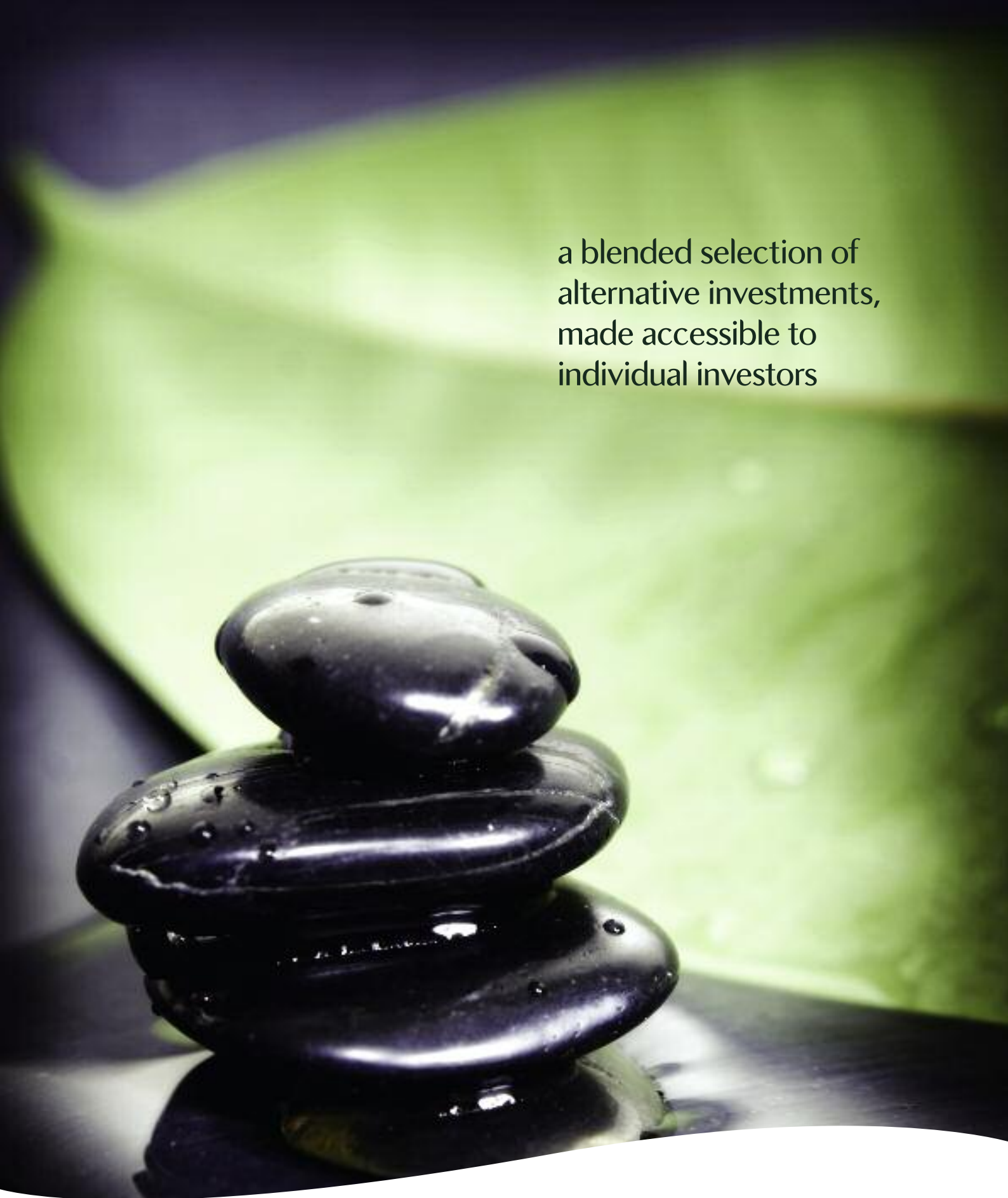
This fund may make use of 'over the counter' derivatives as well as those which are traded on a recognised exchange. This may expose investors to additional risk.

To protect investors against the risk of adverse currency movements, derivatives may be used to convert foreign currency exposure to sterling. Where the currency exposure is not fully converted to sterling, the value of the fund may rise and fall purely as a result of exchange rate fluctuations.

External companies are used to undertake derivative contracts on behalf of the fund and, if those companies get into financial difficulties, there is a risk that they will fail to honour their contractual agreements, to the detriment of the fund. However, we seek to minimise this risk by only using companies whose financial strength has been verified by independent experts.

These are the main risks associated with the Alternative Investments Fund, but there is a full explanation of all the risks in the Simplified Prospectus, available from your financial adviser.



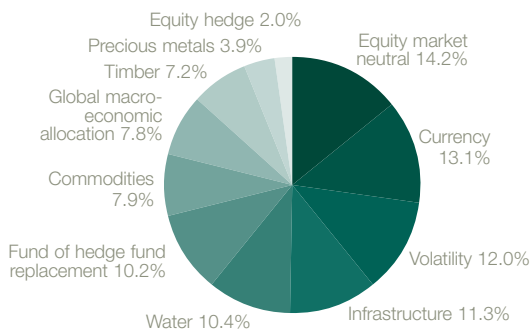


a blended selection of
alternative investments,
made accessible to
individual investors

what are the asset classes?

The actual investment split is rebalanced on a regular basis. As well as maintaining diversification, this trims back exposure to investments that have surged ahead and tops-up those that have fallen behind.

target asset allocation



Target asset allocation as at 31 July 2009.
This may change from time to time.

water

As a staple of life, water is always in demand whatever the economic conditions and can therefore be described as a 'defensive' asset class. In the Alternative Investments Fund it is accessed through companies involved in water-related industries, including:

- utilities
- water infrastructure and equipment
- water technologies
- construction and engineering
- environmental control and metering.

infrastructure

Infrastructure is another asset class which is likely to produce less variable performance than shares as a whole. It provides exposure to global listed infrastructure companies in areas such as gas/electricity distribution and toll roads.

precious metals

This asset class provides access to gold mining and precious metal related shares. In particular, the tendency of gold to perform differently from the wider stock market means it is recognised as offering important diversification benefits.

fund of hedge fund replacement

Hedge funds have a low correlation to conventional assets and hold the potential for attractive returns with lower risk, which makes them beneficial within balanced portfolios. However, they are often thought unsuitable for retail investors due to high fees and a lack of transparency or regulation.

Fund of hedge fund replacement is a strategy which seeks to harness the benefits of funds of hedge funds in a transparent, accessible and regulated form, and at significantly lower cost than funds of hedge funds themselves.

What is a hedge fund?

A hedge fund is a managed investment that uses advanced investment strategies, including derivatives, with the goal of generating positive returns irrespective of the movement in stock markets. Hedge funds are often set up as private investment partnerships that are open to a limited number of investors and require a very large initial investment.

Note: The Alternative Investments Fund does not invest directly in hedge funds but in fund of hedge fund replacement.

equity market neutral

Based on mathematical modelling, this strategy seeks to exploit opportunities arising from the fact that share (equity) prices do not always reflect all information flows. Markets are not perfect so pricing 'inefficiencies' can be exploited. By having a roughly equal exposure to shares expected to rise and those expected to fall (via derivatives) it aims to generate positive returns regardless of the direction of the stock market.

currency

The ease of buying and selling currencies allows skilled investment managers the opportunity to profit through a disciplined, risk-controlled approach, exploiting the tendency for higher interest rate currencies to outperform lower rate currencies.

volatility

This strategy is designed to capture the systematic mispricing of options in the UK stock market. An option is a type of agreement that gives the buyer the right, but not the obligation, to buy or

sell an investment at an agreed price by a specified date. The strategy is based on the premise that actual variability of returns, or 'volatility' of shares, is almost always lower than expected volatility. The strategy aims to deliver a return with low volatility and low correlation to the stock market.

What is correlation?

If an asset class is said to have a low correlation to another asset class, it means it is unlikely to perform in the same way. For instance, when we say this fund has a low correlation to shares we mean that when shares are performing badly this fund could still perform well.

global macro-economic allocation

Global macro-economic allocation seeks to evaluate the attractiveness of a range of asset classes across all regions and countries, and to position a portfolio to benefit from pricing inefficiencies. Analysis of global economic conditions determines which assets are expected to perform best and the portfolio is weighted accordingly.

The strategy aims to make consistent returns regardless of stock market direction.

commodities

This investment gives you indirect exposure via derivatives to real commodities such as wheat, sugar, oil and cotton and therefore has low correlation to shares.

timber

Because of its unique nature, deriving from the steady growth in tree sizes, timber tends to perform differently from traditional asset classes and provides an excellent opportunity for diversification. The Alternative Investments Fund offers exposure via derivatives to the largest listed timber companies involved in:

- Forest products
- Paper products
- Paper packaging
- Specialist Real Estate Investment Trusts.

Your financial adviser can give you more details about each of the investments and the experts who manage them.

our investment approach

Skandia pioneered the concept of MultiManager investing (the use and management of external fund managers) more than 20 years ago, and since then we have built up global expertise in researching and monitoring managers – examining their process, philosophy, people and performance.

Because of our unique position and size in the market, we are able to consider investment managers from around the world, including those not normally available to individual investors.

Within the Alternative Investments Fund, each of the selected investments is managed by an expert who has been hand-picked by us for their knowledge and ability in their own particular asset class.

our manager research and selection team is one of the largest in the industry

Here's how our three-step investment process works:

step 1

selecting the managers

We concentrate on finding the right managers for the fund. We look at the fundamental characteristics of a manager, not simply focusing on past performance. We do this by carrying out hundreds of manager interviews each year to help us identify managers who we believe can deliver strong, consistent performance in the future. We look for performance as a result of skill, not luck – because we are convinced that skilful managers are capable of delivering consistent returns.

step 2

blending the managers

We take great care in combining selected managers to ensure that each works well with the others in the portfolio, seeking to minimise risk within each portfolio as a whole. This careful blending creates the opportunity for each manager to outperform in their specialist area but in a strict, risk-controlled environment.

step 3

monitoring the managers

We continually analyse and reassess our managers to ensure they remain best suited to fulfil their role in the portfolio. If their performance disappoints or a better manager is identified, we can replace them rapidly.



how to invest

You can invest in the Alternative Investments Fund as an OEIC or ISA investment from as little as £1,000 lump sum or £50 per month. You can also consolidate your existing ISA investments via ISA transfers direct to Skandia Investment Management Limited or through the Skandia Investment Solutions platform.

If you invest directly with Skandia Investment Management Limited, there will be an initial charge of 5% and an annual management charge of 1.5%. The total cost of all annual charges and expenses, including the annual management charge, is estimated as 2.76% and you can sell your investment at any time with no additional charges.

Minimum investments and charges may differ slightly if you invest via the Skandia Investment Solutions platform, or other fund platforms.

The fund is available across the Skandia product range, which includes Skandia's investment bonds and pensions and offshore investment bonds aimed at international investors.

You should note that the performance of the life, pensions and offshore funds will not be the same as for the OEIC because of taxation adjustments and the life company fund charges and investment process. Your financial adviser can provide full details.



summary

- The Alternative Investments Fund offers diversity with the potential for positive returns in all market conditions.
- Diversifying into alternative investments can add an element of stability to a portfolio of conventional investments such as shares.
- Widely differing alternative assets are blended to create a single fund where the ups and downs are relatively low.
- The fund is likely to appeal to existing investors looking to reduce the level of risk in their portfolios.
- In line with our investment philosophy, each investment in the fund is managed by a hand-picked selected expert in that field.
- We take responsibility for selecting and managing the managers, to ensure strong and consistent management.

further information

For full details of charges and any risks associated with the Alternative Investments Fund, please ask your adviser for a copy of the Simplified Prospectus.

If you feel the Alternative Investments Fund could be useful in helping you balance your portfolio and would like to know more, please speak to your financial adviser about it.

Skandia Investment Group is a division within the worldwide Skandia Group, itself owned by Old Mutual plc.

This material is issued by Skandia Investment Management Limited, a member of the Skandia Group.

www.skandia.co.uk

www.skandainvestmentmanagement.com

www.royalskandia.com

www.skandia.ie

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