

Dynamic FTSE GEB explained

Investment professionals normally recommend that any investment in equity-based assets should be over the medium to long term. This is because short-term fluctuations in share prices (“volatility”) can result in substantial and untimely losses.

Therefore, as a general rule, many investors are faced with “the Investment Dilemma”. They may want to invest in equity-based investments so they can benefit from any real growth over and above inflation, but equally they don’t want to take the risk of short-term fluctuations because they can’t afford to lose some or all of their capital.

What is it that most investors want? They want the opportunity for growth without the fear of loss. So, with that thought in mind, the Dynamic FTSE Guaranteed Equity Bond was specifically designed to address “the Investment Dilemma”.

Dynamic FTSE Guaranteed Equity Bond (“Dynamic”) is a six-year Fixed Term deposit, where the amount of interest paid at maturity is linked to the performance of the FTSE 100 Index. It provides investors with four key benefits:

- **A Capital Guarantee**
So you can’t lose any money.
- **An optimised exposure to the FTSE 100 Index**
So that the investment can benefit from growth in the value of the index.
- **A Lock-in to guarantee gains**
So if the FTSE 100 Index performs well initially, gains can be reserved and guaranteed, and then paid at the end of the Fixed Term, just in case the value of the Index subsequently goes down.
- **Access to your capital in an emergency**
So that if you need it suddenly, you can get some of your money out of your account.

A Capital Guarantee

The advantage of the Bristol & West Capital Guarantee is that regardless of what happens to the underlying investment, you are guaranteed to get back the full amount of your initial investment at the end of the Fixed Term, less any withdrawals (and associated fees) you may make during the Fixed Term.

The benefit to you is that even if the FTSE 100 Index falls consistently throughout the Fixed Term and finishes lower than when the Fixed Term started, you will not lose a penny.

An optimised exposure to the FTSE 100 Index

The advantage of this feature is that while your money remains on deposit throughout the Fixed Term, the amount of interest paid at maturity is measured against the performance of basket of asset comprised of the FTSE 100 Index (* see the note at the end of this document) and cash, known as the Dynamic Basket.

The amount of money invested in these assets (FTSE 100 Index and cash) is rebalanced on a daily basis to make sure the right amount is invested in the right asset at the right time taking into account the positive or negative performance of the index, movements in interest rates and short-term volatility, each of which has an impact on how much should be invested in the index. The process of rebalancing optimises exposure to the FTSE 100 Index, which produces any growth in the value of the investment.

For example, if the index performs well, up to 150% of the Dynamic Basket can be invested in the index and conversely, if the index performs badly, this can be reduced to as low as 10%. This also means that if the index performs poorly at the start of the Fixed Term and subsequently recovers, you can still benefit from that recovery.

The benefit to you of this feature is that the right amount of money is exposed to the performance of the Index at the right time.

A Lock-in to guarantee gains

The advantage of this feature is that because short-term volatility can be good as well as bad the Dynamic FTSE GEB can benefit from positive volatility by locking-in 90% of the value of the Dynamic Basket. What does this mean?

At the start of the Fixed Term you have a guarantee that, at the end of the Fixed Term, Bristol & West will pay to you the full amount of your initial investment less any withdrawals (and associated costs). In other words you could say that at the start of the Fixed Term the price of the Bristol & West Guarantee is valued at £1.00 for every £1.00 you invest. The price can never fall below £1.00, whatever happens to the FTSE 100.

Thereafter, on a quarterly basis, the value of the Dynamic Basket is measured with a view to raising the value of the price of the guarantee. If the value of the price of the guarantee is raised, it is known as a “Lock-in” and a Lock-in can only happen if the value of the Dynamic Basket rises sufficiently.

For example, if the value of the Dynamic Basket rises from £1.00 to £1.50 at the end of the fourth quarter, the value of the Lock-in would be raised to £1.35, because that is 90% of £1.50. This means that the value of your guarantee has been raised to £1.35 for every £1.00 you invested. This becomes the guaranteed minimum amount payable at maturity, whatever happens, so if your initial investment is £10,000, at the end of the Fixed Term you would be guaranteed to receive a minimum of £3,500 in interest, even if the FTSE 100 Index goes down between that moment and the end of the Fixed Term.

Continuing this example, if at the end of the fifth quarter the Dynamic Basket price falls back to £1.30, the Lock-in price will be unaffected and will remain at £1.35. Once a Lock-in price has been set, it can never fall.

However, the value of the Dynamic Basket must rise sufficiently for a new Lock-in to happen, so in this example, the value of the Dynamic basket must rise above £1.50 before a new Lock-in could be set.

At the end of the Fixed Term, the amount of interest you get paid is measured against the Dynamic Basket or the Lock-in, whichever is highest.

The Lock-in price can never fall. It can only go up.

The benefit of this feature to an investor is that short-term, positive fluctuations in equity prices could raise the minimum amount payable at maturity and provide in-built protection against future losses before the end of the Fixed Term.

Access to your capital in an emergency

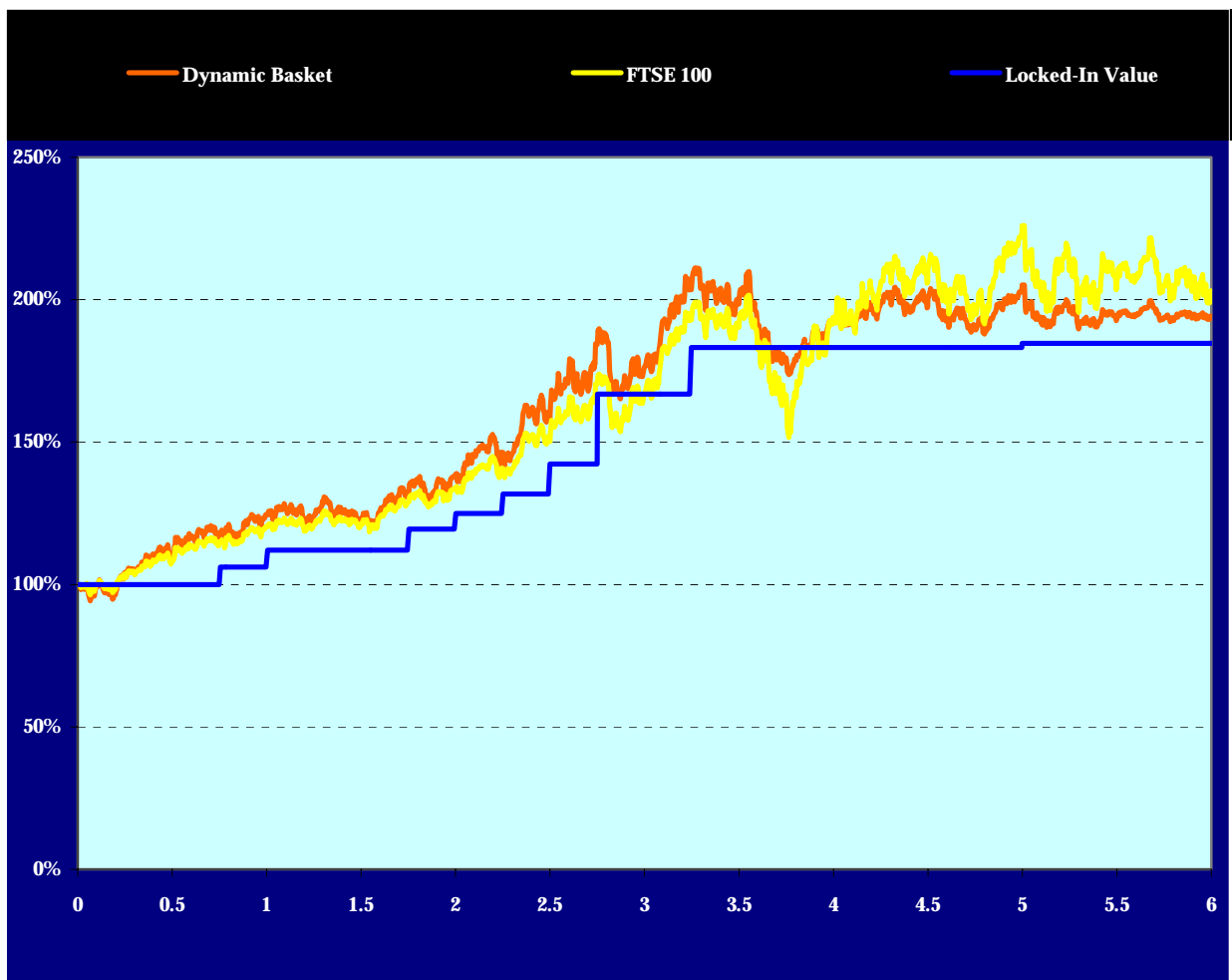
Your money is held on deposit in your account with Bristol & West throughout the Fixed Term. If an emergency arises and you need some of your money, you can have it, but you will have to pay a Bond Access Fee. Please refer to the brochure for details of this Fee.

However, even if you withdraw your money (you have to leave at least £1.00 on the account), at maturity you will be paid interest based upon your original deposit, not the account balance at the end of the Fixed Term. This means that if the investment performs well you will still get all of the benefit in spite of having had to withdraw some of your capital.

SUMMARY

What is it that most investors want? They want the opportunity for growth without the fear of loss.

They get all of that with Dynamic. And more.



This chart shows how Dynamic would perform in a rising market.

The Lock-in rises in value in line with the rises in the value of the Dynamic Basket, remaining above the value of both the FTSE and the Dynamic basket at the end of the third quarter in the third year and third quarter in the fourth year, times when the FTSE 100 Index fell substantially. At maturity, the Dynamic Basket value is below the value of the FTSE 100 Index and the Lock-in lower still, demonstrating the amount that has to be given up in order to benefit from the guarantee. If the FTSE had fallen back to 100% from its mid-term point, an investor would have received the Lock-in value at the mid-term.

***NOTE**

FTSE 100 Index

A number of advisers have criticised the use of the FTSE 100 Index because this index is not a Total Return Index, which means the price of the index does not reflect the value of the dividends paid by the companies that make up the index.

It needs to be understood that the dividend yield is incorporated and factored into Dynamic so investors are benefiting from dividend growth.