

Update regarding 'Fair Price' for unit linked funds

Introduction:

Following a review by an external actuarial consultant into the current unit pricing process for unit linked funds we have agreed to improve the pricing process for some of the Phoenix Life Limited ('PLL') and Scottish Mutual International ('SMI') unit linked funds.

Background:

PGMSI (and previously RMSI) price a number of unit linked funds which in turn invest in external assets managed by external fund managers (pricing for internal funds managed by IGNIS (previously RAM) is done by the investment manager directly). A timing issue has been identified whereby the price that is provided by the external manager is not reflected in the internal unit price until a day later – which means that if there are any significant movements in the relevant investment markets, then these are not reflected in the price of the fund. This gives rise to a number of potential issues:

- Investors do not get the most up to date and 'fairest' price
- The shareholder is potentially exposed in the event of significant falls in the investment markets
- The shareholder potentially benefits in the event of significant uplift in the investment markets

There is no understanding that the current practice is incorrect, or that any policyholder has been disadvantaged historically, however analysis of series of larger unit movements has demonstrated that there has been a cost to the shareholder in specific instances.

What this means:

From 21 December 2007, where there are significant market movements (outside certain tolerance levels) PGMSI will adjust the unit price to reflect the most current position at the time the price is set, taking into account any unit transactions that are taking place and given the composition of the asset mix of the fund.

Having reviewed the policy terms and conditions, we do not believe there are any implications to policyholders or the policy provisions in improving the unit pricing process in this way. We equally do not believe there is any requirement to give notice policy holders because it does not affect either the policy terms or the provisions.

All transaction types to and from the unit linked funds will receive a fairer price based on the improved model – it will apply at a fund level and not a policy level.

The following information note is being incorporated into switch statements and valuation statements from 21 December:

The performance of your Phoenix Ireland policy is linked to the performance of the funds in which it is invested. Under the terms of your policy, you may instruct PGMS (Ireland) Limited ('PGMSI') to switch between the funds available to your policy, or indeed partially or fully surrender your policy. Following a review of the pricing process, and on the recommendation of the Actuary, we have improved the process by which we price a number of the funds where these are invested in external assets such as unit trusts or managed funds so that they reflect the latest position of the assets in which they invest. Should you have any queries in this regard please contact us on 01 639 9859 or via your financial advisor. The terms and conditions of your policy remain unaffected by this update.

Following the end of year IT work, this information note will also be added to the annual disclosure notices, including MBS for pension policies that have the facility to switch into these funds.

T: + 353 (0) 1 804 4000 F: +353 (0) 1 804 4005 WWW.PEARLGROUPLIMITED.CO.UK