UNDERSTANDING YOUR AVC INVESTMENT CHOICES

Shell Contributory Pension Fund

Additional Voluntary Contributions Arrangement

Produced in Association with the Trustee's Adviser Aon

UNDERSTANDING YOUR AVC INVESTMENT CHOICES

This guide aims to help you understand the choices you have for investing your unit-linked Additional Voluntary Contributions (AVCs).

Investing successfully is not simply about finding the fund that's likely to grow the most. The value of your investments can rise and fall, and price inflation can affect the buying power of your fund. So it also makes sense to think about protecting the value of your AVC fund, especially as you approach retirement.

Use this guide step by step, to think about your own situation and which funds might suit you best.

If you need more information, or feel you need advice about your AVC investments, page 15 has details of some useful contacts.

THINK ABOUT YOUR AIMS

As a starting point, think about the answers to the following questions:

- What level of income in retirement are you aiming for?
- What other sources of retirement income will you have?
- What mix of pension and cash do you plan to take when you retire?
- When do you plan to use your AVC fund?

These pointers will help you decide how much to contribute to your AVC fund. If you already contribute to the AVC Arrangement, you have probably already thought about some of these questions. The answers will also help you choose suitable investments, because they will help you think about the following factors.

The length of your investment time frame
How long are you likely to invest your AVC fund before using it to provide benefits? This is important, because some types of investments have the potential to be relatively volatile and a longer time frame can give these investments time to recover from any falls in value. On the other hand, if you need to convert your AVC fund to pension soon, then security of your fund value is likely to matter more to you.

The level of growth you want to achieve
If you are relying on AVCs to provide a certain level of income in retirement, you may want to aim for maximising the level of growth. Or, you may aim for the growth in your AVC investments to keep up with price inflation. However, you may feel that other factors are more important to you than growth.

The kinds of risks you want to reduce or control
These are likely to change over time. In the early years of your career, you may feel you can risk choosing an investment that goes up and down in value because you want to aim for higher growth over the longer time frame. In the years immediately before you retire, you are likely to make protecting your AVC benefits a higher priority.

How many investment aims you want to achieve
As you can see, there are many aspects to consider and you may want to balance different aims by considering a mix of funds. Your investment aims will change with time and with changes to your circumstances. This means it is very important to review your investments regularly and make any new choices that might be appropriate.

UNDERSTAND RISKS AND RETURNS

Investment returns are the profit or loss you make from investing in a fund. The potential levels of profit or loss from different types of investment vary in several ways. This means that, just like any other aspect of daily life, when you plan your investments you should look at the pros and cons. For investments, this means weighing the returns you might achieve against the risks you may face. You can manage investment risk as long as you understand what each type of risk involves. Remember, some investment risks are not obvious at first glance.

Inflation risk
This is the risk that the returns on your investments may not keep pace with price inflation. Although the face value of your AVC fund rises, the money building up loses buying power and its 'real' value falls. Managing this risk means choosing a balance which you are comfortable with, between the potential for returns above inflation and the potential for losses.

Capital risk
This is the risk to the money you have invested if the value of your AVC investments falls. Some types of investment are likely to change in value more quickly and by larger amounts than others. Managing capital risk means deciding whether, for you, the potential long-term gains are worth the potential short-term losses.

Low pension risk
Safety first? In fact, safety may not be your first priority. In very general terms, the 'safer' the investment, the lower the returns you are likely to achieve. This means that your AVC fund may not provide enough extra income for you. Managing this risk may involve thinking again about the amount you set aside in AVCs. But it also means weighing up what each investment can provide and balancing the levels of risk and return in a way that is right for you.

Conversion risk
Your AVC fund can be used to provide extra pension income. This is done by buying an annuity and the amount of pension income you can buy with your AVC fund can vary over time. This risk may be less important to you if you plan to take your AVC fund as a cash lump sum. You can manage this risk by reviewing your investments as you approach retirement and choosing investments that can help protect you against the changing costs of buying an annuity.

Concentration risk
You probably know this risk by another name – it is the risk of 'putting all your eggs in one basket'. If you invest in only one small area of the market and that area fails, you have nothing to fall back on. Managing concentration risk can involve investing in a range of markets and different types of assets. The asset types are described in more detail in the next section.

DIFFERENT TYPES OF ASSETS

Past performance is not a guide to the future and the value of your investments can go down as well as up. You have probably seen this important warning before. It simply means that none of us can predict the future and there are no guarantees. However, we can describe what each type of investment is likely to offer and what risks it is likely to carry.

Equities

Equities are company shares.

What shares offer investors

Historically, shares have provided higher long-term returns than investments like bonds and cash (described later). This means that investing in share funds can help to manage low pension risk and inflation risk. However, in the short term, shares can underperform bonds and cash (see risks below). Some share funds invest in UK as well as overseas companies; these funds can help manage concentration risk.

The risks shares carry

Compared with bonds and cash, there is a greater risk that shares will suddenly fall in value. Accepting this short-term risk can pay off in the longer term, which is why shares are a common investment for members who are in their early to mid-career. People approaching retirement may prefer to limit their exposure to this risk.

Gilts and bonds

Companies and governments issue bonds as a way of raising money. Bonds issued by the UK Government are known as gilts and those issued by companies are known as corporate bonds. The return on gilt and bond investments is made up of changes in the market value together with the regular interest received.

What gilts and bonds offer investors

Gilts and bonds are less likely than shares to suddenly change in value. Gilts are seen as more secure than corporate bonds because the UK Government is less likely to fail to repay the loan than a company. Investing in bonds and gilts can help manage concentration risk. Also, as you get close to retirement, investing in gilts and/or bonds can provide some safeguards against changes in the cost of buying an annuity (conversion risk) as there is a broad link between them. Changes in costs of buying an annuity will be less important to you if you plan to take your AVC fund as a cash lump sum.

The risks gilts and bonds carry

Historically, gilts and bonds have provided lower long-term returns than shares. This means that they may not achieve the level of growth you need to outstrip inflation and avoid a low pension. For bonds, there is also some risk relating to the financial strength of the company.

Property

Property funds typically invest in a range of commercial properties like shops, factories and offices. The investment returns come from changes in the value of the property and the rental income.

What property offers investors

Property investments have the potential to grow over the longer term. As with shares, they can rise and fall significantly in value. However, changes in property values do not always move in line with changes in value of other asset types. Therefore, used with other types of investment, commercial property can help to manage concentration risk.

The risk property carries

Property values can change quickly and a sudden slow-down or fall in the market can reduce the value of your investment. Investing all of your AVC fund in property carries concentration risk.

One other potential disadvantage of investment in property is that fund managers may need to delay cashing in units during periods when real property cannot be sold easily. This may apply if you retire early, transfer to another Registered Pension Scheme or move your AVC investments between investment funds.

Cash/Money Market Securities

The Cash Fund available through your AVC arrangement invests in cash deposits and other short term money market securities and, although it can fall in value, the risk to capital is low. However, some other risks are highlighted below.

What cash/money market securities offer investors

Investing in cash/money market securities can help you manage capital risk. People sometimes invest in cash as a way of building up a lump sum which they can then take tax free at retirement. Investing in cash/money market securities can also protect the value of your AVC fund in the run-up to retirement.

The risk cash/money market securities carry

Cash/money market investments are anticipated to achieve lower returns than other types of investments over long periods of time. Indeed, the returns could be so low that they do not keep pace with inflation. This means that investments carry a high inflation risk and, if held over the longer term, increase the risk of receiving a low level of pension at retirement. As a result, cash/money market funds are often used for short-term investments.

Additionally, the unit price of cash/money market funds can fall in periods when interest rates are low, which can lead to a situation where the fund charges could be greater than the returns achieved by the cash/money market fund. This risk is greatest in periods of low interest rates.

The effect of currency

If you are looking at funds which invest in assets overseas, remember that changes in exchange rates may also cause the value of overseas investments held within the funds to go up and down.

INVESTMENT FUND CHOICE

The Trustee is responsible for choosing an AVC provider and a suitable range of investment funds for members' AVCs. The current AVC provider is Legal & General Assurance Society Limited (L&G). The range of funds from L&G that the Trustee has selected means that you can choose a fund, or a mix of funds, that is suitable for your investment aims. The Trustee reviews the AVC provider and the investment funds regularly with the help of its investment adviser, Aon. The investment funds available can change from time to time.

Unit-linked funds

Unit-linked funds are available for your AVC investments. The total value of the fund is divided up into a number of units. You and the other investors buy units in the fund. In this way, even if you have relatively small amounts to invest, you are able to share in the investment returns produced by a larger fund.

As the fund's underlying investments change in value, the price of the units changes. When the unit price rises, your AVC investment is worth more. If the price falls, your AVC investment is worth less.

Active and passive management

There are a number of approaches to managing investment funds. One of the main differences is in relation to the performance target the managers set themselves.

The benchmark index

As the returns for different types of investment are likely to behave in very different ways, the investment managers need a benchmark to measure their performance against. The benchmark is normally based on an index, which measures the investment returns across a particular market sector. (For example, the FTSE 100 measures the change in the share prices of the top 100 UK companies on the London Stock Exchange.) Sometimes the managers combine several indices in different proportions to make up a benchmark for an investment fund. They do this to reflect the way the fund is made up of investments in different markets.

Passive or management (or index-tracking)

Under a passive (or index-tracking) approach, the managers invest in all or a sample of the assets which make up the index for a particular market. They aim to track the index, so that the performance of the fund reflects the ups and downs of the market generally. This approach reduces the risk of performing worse than the market. But it does not aim to achieve better returns than the market, even when the market falls.

Active management

Under an active management approach, the managers use their experience and knowledge of the market to select investments that they believe will achieve a better return than the market in which they are investing. You may see this called 'outperforming the market'. Charges for active management tend to be higher than those for a passive (or index-tracking) approach because greater resources are needed to manage the funds.

If the managers regularly succeed in performing better than the market, even small differences can build up significant amounts of money over time. However, there is a greater risk that the managers could do worse than the market as a whole. So, returns from an active fund could be significantly higher or lower than the market index.

Management charges

The Trustee has negotiated a fee rate (or Total Expense Ratio (TER)) with L&G for each fund. The daily rate is based on 1/365 of this yearly rate and the value of the fund each day. They then cash in units each month to cover the daily charges. The TER is made up of the annual management charge (which is 0.15% for all funds), the Investment Management Charge (IMC) and Additional Expenses (AE). The IMC and AE charges vary between funds and are based on a number of factors, including the complexity of managing each investment and whether these investments are active or passively managed (see opposite).

These TERs range from 0.23% to 0.90% each year (or from 23p to 90p in every £100 you hold). The tables on the following pages set out the TERs applicable for each available fund.

There are no specific charges for moving (switching) your AVC investments between different unit-linked funds. However, you may incur some dealing costs.

THE FUNDS YOU CAN CHOOSE

Equity funds

Current manager	Fund	Invests in	Active or passive	Aims to	TER (% pa)
L&G (PMC)	UK Equity Index	UK company shares	Passive	Track the performance of the FTSE All-Share Index	0.25
L&G (PMC)	All-World Equity Index	Overseas company shares	Passive	Track the performance of the FTSE All-World Index	0.27
L&G (PMC)	International	International company shares	Active	Secure long-term capital growth from a widespread portfolio of international securities. Occasionally shares of UK companies, a large proportion of whose profits arise from overseas earnings, may be included	0.45
L&G (PMC)	Future World Global Equity Index	Developed and emerging equity markets while reflecting significant environmental, social and corporate governance (ESG) issues	Passive	Track the performance of the Solactive L&G ESG Global Markets Index	0.29

Multi asset funds

Current manager	Fund	Invests in	Active or passive	Aims to	TER (% pa)
L&G (PMC)	Multi-Asset Fund	UK and overseas company shares, UK gilts, UK and overseas bonds and other asset types	Active	Provide long-term investment growth through exposure to a diversified range of asset classes	0.28
Schroder	Diversified Growth Fund	UK and overseas company shares, UK gilts, UK and overseas bonds and other asset types (both traditional and non-traditional)	Active	Invest in a broad range of asset classes to aim to provide capital growth and income of cash (as measured by the ICE BofA Sterling 3-Month Government Bill Index) plus 4.5% (after fees have been deducted) per annum over a 5 to 7 year period	0.81

THE FUNDS YOU CAN CHOOSE
CONTINUED

Gilt and bond funds

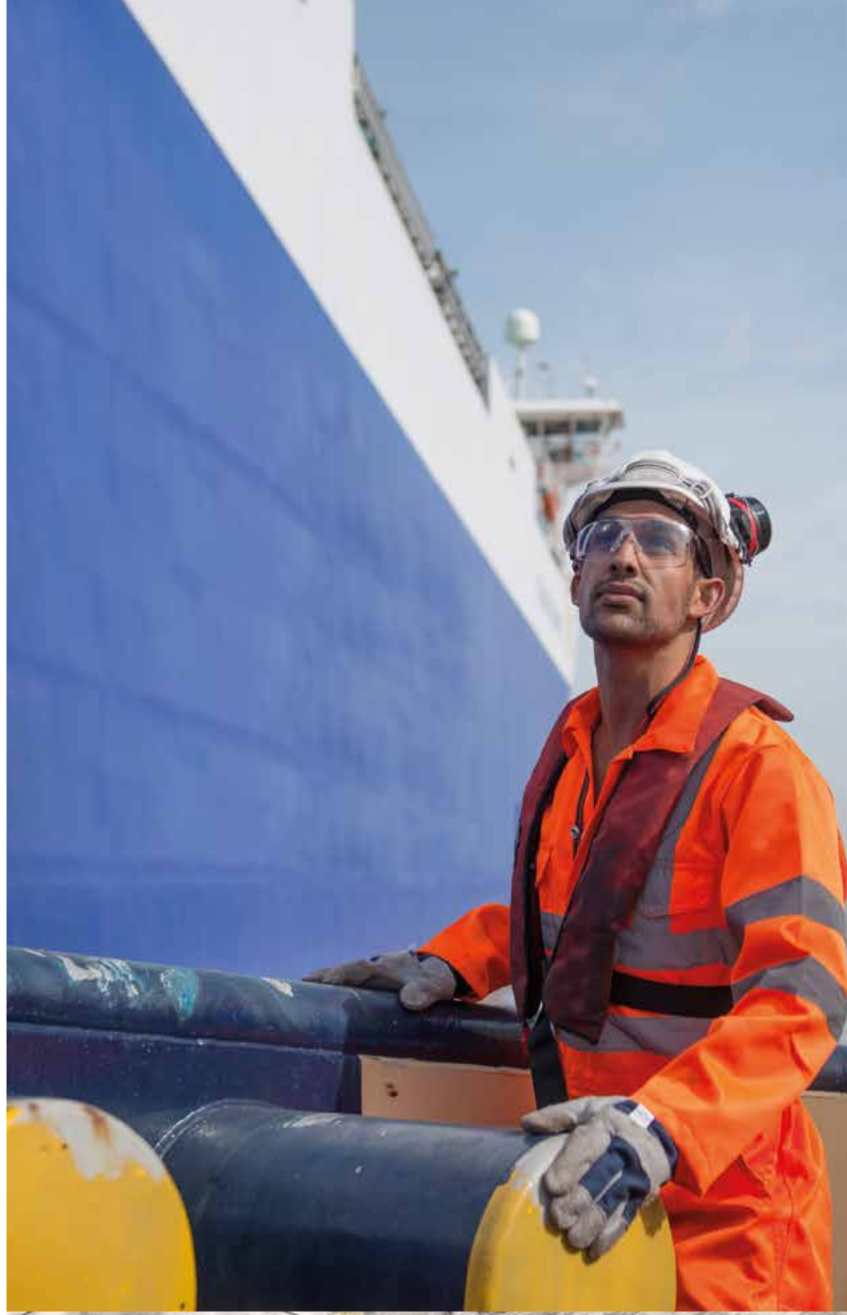
Current manager	Fund	Invests in	Active or passive	Aims to	TER (% pa)
L&G (PMC)	Fixed Interest	Mainly UK gilts, although the fund may also include bonds issued by overseas governments and companies	Active	Maximise returns by investing in UK Government stocks and other readily-marketable fixed interest securities. The fund may also include stocks of overseas governments and companies	0.24
L&G (PMC)	Future World Annuity Aware	UK gilts and UK and overseas bonds	Active	Provide broad protection against movements in the purchase price of fixed income annuities	0.27
L&G (PMC)	All Stocks Index-Linked Gilts	UK index-linked gilts	Passive	Track the total return of UK index-linked gilts as measured by the FTSE A Index-Linked All Stocks Index	0.23

Other funds

Current manager	Fund	Invests in	Active or passive	Aims to	TER (% pa)
L&G (PMC)	Cash	Short-term money market securities such as bank deposits and Treasury bills	Active	Provide capital protection (excluding inflation), with growth in line with short-term interest rates	0.24
L&G (PMC)	Global Real Estate Equity Index	Global companies whose primary driver of revenue and income is through real estate investments	Passive	Track the total return of the FTSE EPRA/NAREIT Developed Real Estate Index	0.34
L&G (PMC)	Multi-Asset Cash Lifestyle *	The Legal & General (PMC) Multi-Asset Fund 3. Three years from retirement date the pot gradually moves into the Legal & General Cash Fund 3.	Passive	Grow your AVC pot in the long term. As you get closer to retirement your money is gradually moved into lower-risk funds that invest in short-term money markets such as bank deposits	0.28**

* If you choose to invest in the Multi-Asset Cash lifestyle strategy, this must apply to 100% of your contributions (both past and future contributions) - you cannot invest in the lifestyle strategy and individual funds at the same time. However different contribution types are treated separately, so for example, you could invest regular contributions into the lifestyle strategy and a single contribution into self-select funds.

* * until 3 years before selected retirement age then decreases (linearly on a monthly basis) to 0.24% p.a. at selected retirement age.



FOR MORE INFORMATION

The SCPF and AVCs
The Shell Contributory Pension Fund (SCPF) Explanatory Booklet describes the benefits from the SCPF. You can also read the Shell Contributory Pension Fund Additional Voluntary Contributions Arrangement Explanatory Booklet which outlines the essential features of the SCPF's AVC Arrangement. You can download these explanatory booklets from the website at www.shell.co.uk/pensions

If you have a question about the SCPF, you can email the Pensions Administration team at UK-PensionsAdmin@shell.com

Your AVC investments
Your latest annual AVC statement will show details of your Legal & General investments. If you want to see the latest unit prices for the funds, see LGIM Fund Centre or Manage Your Account.

Legal and General's risk ratings
If you visit the website and look at the fund information, you will see that L&G give each of their funds a risk rating. As they point out, their rating is based purely on capital risk and does not take account of the other types of risk discussed here.

If you need advice
The Trustee and its advisers cannot give you financial advice. We therefore recommend that you get independent financial advice.

If you do not already use a financial adviser you can contact Unbiased who will give you a list of independent financial advisers in your area. You can use the 'Find an IFA' search on their website at www.unbiased.co.uk

The Financial Conduct Authority (FCA - the regulator for the industry) provides information for consumers about all aspects of financial planning, including how to find an adviser and what questions to ask. The website the FCA recommends is www.moneyadviceservice.org.uk