



A Guide to Investing in a Capital Guaranteed Asset

This guide is designed to highlight the attractions of investing in **Traded Endowment Policies**. Traded Endowment Policies or TEPs offer strong growth potential while at the same time providing full capital protection. This excellent combination of high growth and capital security is a result of the current conditions prevailing in the UK Traded Endowment Market.

About TEPPCO

TEPPCO is Ireland's largest Market Maker in the traded endowment policy market. As well as being Ireland's largest Market Maker, TEPPCO is also Ireland's only buyer and seller of both Sterling and Euro denominated Endowment policies.

The Endowment Policy Purchasing Company (TEPPCO) was founded in 1995 and is part of IFG Group plc.

Background to UK Traded Endowment Market

The traded endowment market has existed for over a hundred years, originally being conducted through auction houses. Policy holders discovered that they could get a higher price for their policies by selling them to a third party rather than cashing them in. The new investors (policy buyers) were prepared to take over the policy because they recognised the opportunity of acquiring a low risk investment (at a significant discount to its real asset value) with potential for high returns. Over the years, this trading in second hand policies has grown to the extent that, in the UK alone, the value of the policies traded is in excess of STG£1 Billion annually.



What are Traded Endowment Policies (TEPs)?

There are five basic component parts to a Traded Endowment Policy (TEP).

- > Basic Sum Assured
- > Attaching Bonuses
- > Terminal Bonus
- > Sales Price, and
- > Future Premiums

Basic Sum Assured

This is the amount, which the Life Assurance Company guarantees to pay out at maturity. This figure is declared at the time the policy is originally taken out.

Attaching Bonuses

Each year, the Life Company declares a bonus, and once it is declared it is guaranteed to be paid out at maturity (in addition to the Basic Sum Assured). Once a bonus has been declared in this way it is said to be “attaching” to the policy. Current attaching bonuses are the total of the bonuses that have been declared to date.

Terminal Bonus

When a policy reaches maturity, the Life Company usually declares a final, “Terminal”, bonus. This is usually a quite significant figure and is designed to reflect the policy’s true worth at maturity.

These three elements are the main components of all endowment policies. The final two, **Sales Price** and **Future Premiums**, come into play when a policy is available for purchase on the second hand market. **Sales Price** is the amount you pay to TEPPCO for the policy, while **Future Premiums** represents the premiums to be paid until maturity. The **Total Cost** to the investor is the sum of the sales price and future premiums.

How are policies valued?

A policy is valued by calculating it’s **Formula Maturity Value (FMV)** based on the assumption that current bonus rates are maintained until the policy’s maturity date. This value and the future premiums are then discounted by the Price Discount Rate (PDR) to arrive at the sales price.

Maturity Date	Company	Policy Term	Basic Sum Assured	Current Attaching Bonuses	Guaranteed Min Maturity Value	Formula Maturity Value (FMV)	Price Discount Rate (PDR)	Sales Price	Total Premiums to be Paid	Total Cost	Guaranteed Return*
21-Oct-2011	Pearl Assurance	25	9,720	9,075	18,795	43,177	13.50%	13,149	3,857	17,006	1,789
26-Aug-2012	Friends Provident	25	18,920	12,220	31,140	44,172	6.00%	21,313	6,380	27,693	3,447
4-Jan-2013	Standard Life	25	9,750	6,985	16,735	37,652	8.75%	14,310	4,307	18,617	-1,882
12-Feb-2013	Norwich Union	25	10,320	5,951	16,271	27,051	7.00%	10,977	4,549	15,526	745
18-Mar-2013	General Accident	25	9,196	7,411	16,607	42,302	11.00%	13,247	3,903	17,150	-543

*Guaranteed Return= Guaranteed Minimum Maturity Value less Total Cost

NB: Past and current bonus rates are not necessarily a guide to future performance.

TEPPCo recommends that investors seek independent financial advice before purchasing a Traded Endowment Policy.



What are the advantages of buying a TEP?

Capital Protection

Your original capital is fully protected when the total of Basic Sum Assured plus Current Attaching Bonuses ("Locked-In Value") exceeds the total of Sales Price plus Future Premiums (Total Cost). This can be seen clearly in the sample portfolio below.

Sample Portfolio

Company	Years to Maturity	Basic Sum Assured	Current Attaching Bonuses	"Locked-In Value"	Price Paid	Future Premiums	Total Cost
Friends Provident	10	8,428	4,577	13,005	8,459	3,552	12,011
General Accident	10	10,419	2,830	13,249	6,826	7,340	14,166
Norwich Union	10	8,600	5,732	14,332	10,839	3,494	14,333
Pearl Insurance	9	5,520	2,707	8,227	5,425	2,802	8,227
Royal Life	8	5,792	3,607	9,399	6,488	2,912	9,399
Total		38,759	19,453	58,212	38,037	20,099	58,136

In summary, the Total Cost of the above portfolio is £58,136, while the minimum guaranteed amount on maturity is £58,212, thereby ensuring that the investor's capital outlay is fully protected.

All figures quoted are in Sterling.

Strong Growth Potential

With profit funds have traditionally been able to smooth out the peaks and troughs of investment markets and are considered to be at the conservative/low risk end of the risk and reward spectrum. Buying a Traded Endowment Policy mid-way through it's term offers the investor an opportunity to invest in a with profit fund with strong growth potential without any of the usual up-front costs.

What Can I Expect at Maturity?

Low-risk investors typically will want their capital guaranteed, but all investors want real returns on their funds. Historically, the best long-term returns have always been achieved with equities. The average investment mix of a with profit policy is 70% equities and the balance in gilts, property and cash. It is this mix that has consistently achieved excellent returns.

Assuming no changes in future bonuses the investor can expect an annual rate of return in the range of 8 – 10%.

The TEPPCO Gearing Facility

We have relationships with major banks and through negotiations can ensure that you have the opportunity to benefit from some of the least expensive forms of borrowing available for your Geared TEP portfolio. Typical rates are around 1.5% over bank base rates.

Your investment power can be considerably increased through the use of bank finance. Extra funding will enable you to buy more policies, thereby increasing the potential gains to be made from your investment over the longer term.

Benefits of the TEPPCO Gearing Facility

- > Having the funding to purchase a wider range of TEPs means diversifying your portfolio is easier.
- > The bank will fund the premium payments and "roll up" the interest.
- > The bank will only have recourse to the policies as security.
- > Providing the loan amount does exceed the maximum allowable by the lender, you can reinvest part of the accrued equity held in the portfolio.
- > Minimum £100,000.



Tax & Legal Issues

The Endowment Policy Purchasing Company Limited does not advise as to the merits or suitability of any transaction. The client's decision to enter into a transaction is based on the client's own independent judgement or the advice received from the client's Independent Financial Advisor.

- > The Endowment Policy Purchasing Company Limited acts on an execution-only basis. No review of client's investments is undertaken. No investment or taxation advice is provided.
- > The Endowment Policy Purchasing Company Limited is regulated by and bound by the rules of the Irish Financial Services Regulatory Authority.
- > Please read our standard terms of business before making any financial commitments.

What to do Next?

If you wish to invest in a TEP please call us on **+ 353 1 275 2900**.

If you have a policy for sale, check the current surrender value with the Life Assurance Company, then give us a call with the details and make more by selling it to us.

In either case, call us on: **+ 353 1 275 2900**

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