SCOTTISH WIDOWS

Scottish Widows Horizon Multi-Asset Funds

Suitability Paragraphs

For Professional Advisers only

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Communicating with your clients

Following your client discovery process, you will have gained a comprehensive understanding of your clients' specific investment needs. As you will know, to reinforce your advice you will need to write to them with a proposal of your recommendations based on their risk profile, investment goals and time horizons.

In order to help you provide your clients with thorough and clear communications, we have created templated paragraphs explaining the Scottish Widows Horizon Multi-Asset Funds proposition, investment process and the five different risk profiles. Please do feel free to copy and paste these paragraphs into your own company's branded letters.

Important Information

We do ask that your letters do not feature the Scottish Widows brand. The information you use from this document is deemed to be issued by your business. With this in mind, your company's compliance officer should check and approve the use of any information we provide.

We also have supporting documents such as KIIDs, factsheets and prospectus via our website **platform.scottishwidows.co.uk** for more information about the Scottish Widows Horizon Multi-Asset Funds.

Naturally, your company is also responsible for assessing the suitability of investments for your clients. Scottish Widows accepts no liability for the content of this document.

For the avoidance of doubt, when using the information in this document for communicating with your clients, you are responsible for informing them that:

- Past performance is not a reliable indicator of future results
- The value of investments (and any income from them) can go down, so an investor may get back less than the amount invested
- All the communication you send them is accurate and meet the fair, clear and not misleading requirements.

Why choose Scottish Widows Horizon Multi-Asset Funds?

The Scottish Widows Horizon Multi-Asset Fund range offers five actively managed multi-asset solutions, designed to adapt to changing market conditions, align with an investor's chosen risk profile, and grow investments over the medium to long term (5 or more years).

1

Five multi-asset solutions designed to align with your chosen risk profile

- **One stop investment solutions** – The Scottish Widows Horizon Multi-Asset Funds offer a risk-profiled portfolio service within the convenience of one fund solution. Each Fund is highly diversified and designed to meet the chosen risk profile and long-term investment goals.
- **Robust investment process** – Three independent layers of expertise and risk management across Scottish Widows Investments, EValue Limited (EV) and BlackRock.
- **Active management and rebalancing** – Active allocation and investment management with regular rebalancing to maintain alignment with the chosen risk profile.

2

Strategic Asset Allocation (SAA) models provided by EV

- **Unique and forward-looking approach** – Five Scottish Widows Horizon Multi-Asset Funds that utilise the unique Stochastic Asset Model provided by EV.
- **Risk profiled** – Strategic asset allocations that aim to deliver optimised investment performance aligned with the chosen risk profile. The Scottish Widows Horizon Multi-Asset Funds are aligned to EV's five-point risk scale.
- **Quarterly rebalancing** – Asset allocations are rebalanced on a quarterly basis to maintain continuous alignment with the chosen risk profile.

3

Tactical Asset Allocation (TAA) provided by BlackRock

- **Active tactical decisions** – BlackRock overlay's their tactical investment views on short-term market dynamics and expectations, within agreed limits and to align with the chosen risk profile.
- **Actively invested** – Each Scottish Widows Horizon Multi-Asset Fund invests in a list of BlackRock active and passively managed funds and actively managed third-party funds, to strengthen the depth and breadth of the fund selection universe.
- **Highly Experienced team** – Managed by a highly experienced investment multi-asset team with over 30 years of experience in managing multi-asset portfolios.

4

Performance track record

- **Investment performance** – The Scottish Widows Horizon Multi-Asset Funds have a strong and long-term track record from 2013.
- **Past performance** – Past performance is not a reliable indicator of future results and the value of investments (and any income from them) can go down, so an investor may get back less than the amount invested. No guarantee is given for the performance of the Funds.

Explaining the Horizon Multi-Asset Funds

Following our discussions, you have decided to invest in [insert fund name here]. After assessing and establishing your attitude to risk, the Scottish Widows Horizon Multi-Asset Fund most suited to you was [insert fund name here].

Risk profiles

1

Scottish Widows Horizon Multi-Asset Fund 1

You wish to grow your investment over the medium to long term (5 or more years) by means of a portfolio that demonstrates moderate price fluctuations, with greater emphasis placed on fixed income securities and lower exposure to equities (company shares).

You understand that company shares have the potential to achieve a greater rate of return over the medium to long term compared to fixed income securities, yet they also carry significantly higher risk. You understand that certain fixed income securities, whilst typically less risky than equities over the longer term, are exposed to interest rate risk and can experience reductions in value, for example in a rising interest rate environment. There may also be some exposure to emerging markets.

You want to achieve a greater rate of return over the medium to long term than investing in a portfolio of only cash or fixed income securities, but want to do this with a significantly lower risk than investing all your money in company shares.

The exposure to equities is typically 15-50%, including 0-7% in emerging market equities, although these are not limits and the exposure could be above or below this range in the future, but equities should not exceed fixed income. You are prepared to accept the higher risk that comes with such an exposure.

You want to achieve the best return for this risk profile over the medium to long term although you accept that there can be no guarantee that this will be achieved.

2

Scottish Widows Horizon Multi-Asset Fund 2

You wish to grow your investment over the medium to long term (5 or more years) by means of a portfolio that demonstrates moderate price fluctuations, with emphasis placed on fixed income securities and equities.

You understand that company shares have the potential to achieve a greater rate of return over the medium to long term compared to fixed income securities, yet they also carry significantly higher risk. You understand that certain fixed income securities, whilst typically less risky than equities over the longer term, are exposed to interest rate risk and can experience reductions in value, for example in a rising interest rate environment. There may also be some exposure to emerging markets.

You want to achieve a greater rate of return over the medium to long-term than investing in a portfolio of only cash or fixed income securities, and also a greater rate of return over the medium to long term than the Scottish Widows Horizon Multi-Asset Fund I; as such you are prepared to take a greater level of risk by having a greater exposure to company shares.

The exposure to equities is typically 20-55%, including 0-10% in emerging market equities, although these are not limits and the exposure could be above or below this range in the future.

You want to achieve the best return for this risk profile over the medium to long term although you accept that there can be no guarantee that this will be achieved.

Risk profiles (continued)

3

Scottish Widows Horizon Multi-Asset Fund 3

You wish to grow your investment over the medium to long term (5 or more years) by means of a portfolio that demonstrates moderate to large price fluctuations with greater emphasis placed on equities and lower exposure to fixed income securities. There may also be some exposure to emerging markets.

You understand that company shares have the potential to achieve a greater rate of return over the medium to long term compared to fixed income securities, yet they also carry significantly higher risk. You understand that certain fixed income securities, whilst typically less risky than equities over the longer term, are exposed to interest rate risk and can experience reductions in value, for example in a rising interest rate environment.

You want to achieve a greater rate of return over the medium to long term than investing in a portfolio of only cash or fixed income securities, and also a greater rate of return over the medium to long term than the Scottish Widows Horizon Multi-Asset Fund II; as such you are prepared to take a greater level of risk by having a greater exposure to company shares.

The exposure to equities is typically 50-75%, including SAA +/-10% with a maximum of 12% in emerging market equities, although these are not limits and the exposure could be above or below this range in the future.

You want to achieve the best return for this risk profile over the medium to long term although you accept that there can be no guarantee that this will be achieved.

4

Scottish Widows Horizon Multi-Asset Fund 4

You wish to grow your investment over the medium to long term (5 or more years) by means of a portfolio that demonstrates moderate to large price fluctuations, with greater exposure to equities and some fixed income securities. There may also be some exposure to emerging markets.

You understand that company shares (including emerging markets) have the potential to achieve a greater rate of return over the medium to long term compared to fixed income securities, yet they also carry significantly higher risk. You understand that certain fixed income securities, whilst typically less risky than equities over the longer term, are exposed to interest rate risk and can experience reductions in value, for example in a rising interest rate environment.

You want to achieve a greater rate of return over the medium to long term than investing in a portfolio of only cash or fixed income securities, and also a greater rate of return over the medium to long term than the Scottish Widows Horizon Multi-Asset Fund III; as such you are prepared to take a higher level of risk by investing to a greater extent in company shares, including emerging markets.

The exposure to equities is typically 50-95%, including SAA +/-10% with a maximum of 17% in emerging market equities, although these are not limits and the exposure could be above or below this range in the future.

You want to achieve the best return for this risk profile over the medium to long term although you accept that there can be no guarantee that this will be achieved.

Risk profiles (continued)

5

Scottish Widows Horizon Multi-Asset Fund 5

You wish to grow your investment over the medium to long term (5 or more years) by means of a portfolio that demonstrates large price fluctuations, with greatest exposure to equities. There may also be some exposure to emerging markets.

You understand that company shares (including emerging markets) have the potential to achieve a greater rate of return over the medium to long term compared to fixed income securities, yet they also carry significantly higher risk. You understand that certain fixed income securities, whilst typically less risky than equities over the longer term, are exposed to interest rate risk and can experience reductions in value, for example in a rising interest rate environment.

You want to achieve a greater rate of return over the medium to long term than investing in a portfolio of only cash or fixed income securities, and also a greater rate of return over the medium to long term than the Scottish Widows Horizon Multi-Asset Fund IV; as such you are prepared to take a high level of risk by having a high exposure to company shares, including emerging markets.

The exposure to equities is typically 60-100%, including SAA +/-10% with a maximum of 22% in emerging market equities, although these are not limits and the exposure could be above or below this range in the future.

You want to achieve the best return for this risk profile over the medium to medium to long term although you accept that there can be no guarantee that this will be achieved.

Funds designed around you

The Scottish Widows Horizon Multi-Asset Fund range gives you access to five multi-asset risk-profiled funds.

Each Scottish Widows Horizon Multi-Asset Fund aims to grow your investment over the medium to long term (5 or more years) whilst remaining within a certain risk profile. They come with the support of an experienced investment team that bases its asset decisions on strong research and analysis.

Who operates the funds?

The Scottish Widows Horizon Multi-Asset Fund range is operated by Scottish Widows. Scottish Widows have chosen EV as the risk profiler and BlackRock as the Investment Manager of the Scottish Widows Horizon Multi-Asset Fund range.

Administration of the Scottish Widows Horizon Multi-Asset Funds is outsourced to Northern Trust. The Scottish Widows Horizon Multi-Asset Funds are also be mapped to the output of other third-party risk profiling tools available to Financial Advisers. See our risk profiling update on our **website** for your convenience.

Who shapes the funds?

EV, one of the UK's leading providers of financial planning and forecasting solutions, helps you to identify a risk profile that matches your feelings about risk and how you would cope should the value of your investments fall.

EV helps shape the five Scottish Widows Horizon Multi-Asset Funds by establishing the risk profile framework to which the Scottish Widows Horizon Multi-Asset Funds are managed. Each quarter, EV will update its investment research tools to provide asset allocations for each risk profile, which in turn sets the basis for tactical asset allocation decisions made by BlackRock.

Please note, the Scottish Widows Horizon Multi-Asset Funds are managed for the medium to long term (5 or more years) and are therefore not suitable if you are investing for less than five years.

Who manages the funds?

BlackRock is the Investment Manager of the five Scottish Widows Horizon Multi-Asset Funds. BlackRock is a leading global asset manager with over 30 years of experience in managing multi-asset strategies. The company has also won numerous investment awards over the years.

BlackRock, as the Investment Manager of the Scottish Widows Horizon Multi-Asset Funds and responsible for the Tactical Asset Allocation (TAA), tactically adjusts the SAA provided by EV based on short-term market dynamics with an aim to deliver additional performance and diversification based upon prevailing market conditions.

In doing so, they build the portfolios from a mix of investment funds, each from a select list of BlackRock active and passively managed funds and actively managed third-party funds. The Scottish Widows Horizon Multi-Asset Funds therefore benefit from the breadth and depth of having a wide range of top-tier underlying funds across different asset classes, geographic region, and styles, to choose from.

BlackRock's dedicated risk professionals' partner with investment teams to help them build risk aware portfolios. BlackRock also use Aladdin®, their internal risk management system, to make smarter investment decisions. It combines sophisticated risk analytics and highly scalable processing capabilities to understand risks and exposures and act with speed and precision. BlackRock continuously analyse each of the Scottish Widows Horizon Multi- Asset Funds to review any potential investments which could result in undue concentration of risk, and to ensure they remain within their designated risk profile.

The portfolios are regularly monitored and rebalanced by the Investment Manager to ensure they remain within their risk bands. This means you can be confident that the level of risk will continue to be within your comfort zone.

Explaining Risk and Return

The relationship between risk and return

Risk and return are related. The more risk you are prepared to accept, the higher the returns you might expect. Conversely, you might receive a lower level of return from investments that have a lower level of associated risk attached to them.

What do we mean by risk?

To some, risk means the possibility of losing some or all your money. To others, it is the chance your money may not produce enough income to live on.

No one can eliminate risk. However, it is possible to measure and manage it within your portfolio. This involves calculating the right level of risk for you.

So, it is important you understand the risks involved and how they might affect you. You should consider the risks and potential returns, your goals, and the time you have to achieve them.

What are the different types of risk?

When creating a portfolio for you, we must consider many different types of risk, including:

Investment market risk

The possibility that an event will adversely affect investments in a market sector, such as shares.

Investment specific risk

The possibility that an investment may not perform as well as the market or its competitors.

Inflation risk

The possibility that the return on your investment is less than the rate of inflation – which reduces the spending power of your money.

Credit risk

The possibility that a debtor fails to pay back amounts they have borrowed.

Interest rate risk

The possibility a fall or rise in interest rates will adversely affect an investment.

Legislative risk

The possibility a change in legislation will mean an investment isn't right for you anymore.

Liquidity risk

Relates to the ease you can sell or liquidate your investment. Some investments charge exit fees or limit your withdrawal from them. Other investments may be difficult to sell, due to a lack of buyers.

Shortfall risk

The possibility the returns on your investment are insufficient and its value doesn't reach the amount you require.

Explaining Asset Classes

What are fixed income assets?

Fixed income investments are also known as bonds. Governments and companies who want to raise money issue bonds. Investors who buy bonds are, in essence, lending money to the government or company that issued them (the issuer).

In return, investors expect to receive regular interest payments until the bond matures (comes to an end). When the bond matures, they also expect to get back the amount they originally invested.

The issuer will set and pay a regular interest payment called a coupon. Given that the issuer fixes this coupon when it first sets up the bond, bonds are often called 'fixed-income securities'.

When issued, the life of a bond is typically from 2 years to 30 years or more. Most bonds are assigned a credit rating to reflect the issuer's creditworthiness. One potential risk of bonds is that money isn't repaid to investors. As a result, bond prices may move to reflect this possibility.

Movements in interest rates will affect the value of bond prices. As longer term interest rates (i.e. bond yields) rise, bond prices tend to fall. Conversely as yields fall, bond prices tend to rise.

What are equities?

Equities, also known as shares, are investments that give you an ownership stake in a company, making you a shareholder. In return, you may receive a share of the company's profits.

The company may pay out these profits to shareholders regularly, in the form of a 'dividend'. Alternatively, the company can keep the profits to pay for its activities or growth. Typically, people with equities receive returns through a blend of capital gains and income from dividends.

Equities may be traded in developed markets, these are countries which have high levels of income per person and democratic goverments and include countries such as the UK, US, Germany, France and Japan. They may also be traded in emerging markets, such as China, Brazil, Russia and India, as their economies and financial systems are less advanced, investment professionals usually view emerging markets as higher-risk areas.

History shows that equities have been a volatile investment. However, they have tended to perform well over long time periods of ten years or more – although this does not indicate future performance.

Explaining Asset Allocation

Getting the right mix of assets

Some investors are willing to accept more risk to try and get better returns from their investments. They can be better suited to an investment portfolio featuring more equities than comparatively lower-risk cash and fixed income investments.

Investment portfolios with more equities may, potentially, give you a better return on your money than lower-risk investments. However, there are no guarantees, as equities can rise and fall quickly.

'Strategic asset allocation' acknowledges the different risk and return profiles of different asset classes and involves choosing which assets should go in your portfolio, and in what amounts to help you achieve your goals – while accounting for your feelings about risk, capacity for loss and how long you want to invest. The Scottish Widows Horizon Multi-Asset Funds strategic asset allocations are aligned to the EV risk profile framework, and can be mapped to the output of other risk profiling tools. In this way, it is possible to identify the Scottish Widows Horizon Multi-Asset Funds that delivers a suitable strategic asset allocation for the investor.

Whereas the strategic asset allocation is a fairly stable longer term neutral position designed to meet the investor's objectives over the chosen investment period, 'tactical asset allocation' involves shorter term investment decisions that are intended to opportunistically improve the performance of the longer term strategic asset allocation, by increasing return and/or reducing risk.

Typically the Investment Manager will take shorter term views on individual asset classes and increase ('overweight') or decrease ('underweight') the investments relative to their weightings in the strategic asset allocation. Tactical asset allocation decisions may be driven by various factors, including the manager's view of market conditions, investment outlook, and asset class valuations.

Explaining Diversification

Spreading investment risk

One of the best ways to reduce risk in your portfolio is to have a wide spread of investments. This is called 'diversification'. By holding a spread of investments across different asset classes and different geographical regions, you can increase your chances of making the most of potential returns.

For example, if one type of investment, asset or region in the portfolio performs less well, others may perform better. While diversification does not eliminate risk, it can reduce the threat to your money that comes with putting all your eggs in one basket.

The most common asset classes include shares in companies, government bonds, and cash amongst others.

You can diversify your investments in these three ways:

1

Across asset classes

Major asset classes such as equities and government bonds perform differently at different times. Historically, no single asset class has performed consistently better than all others every year. Investing across a variety of asset classes will reduce risk in your portfolio.

2

Across markets, regions and individual securities

Investing across different countries, currencies, industries and securities ensures you're not focusing narrowly on a particular area. Doing this helps reduce the impact of a regional or industry downturn, or events that have a negative impact on individual companies (e.g. bankruptcy).

3

Across different investment management styles

Different investment styles tend to behave differently in various economic and market conditions. Choosing a range of managers with complementary styles might counteract the risk of focusing on one approach that's not performing so well.

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Further information

For further information please visit our **website** or contact your local business development manager.

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