



An Investment Guide to Traded Endowment Policies

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Traded Endowment Policies are a stable, fixed term investment that is unique in the New Zealand investment market.

- Recognised, well established Product Issuers
- Excellent Risk Adjusted Returns
- High Initial 'Locked In' Values
- Rising 'Locked In' Values

Traded Endowment Policies

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What are Traded Endowment Policies?

Traded Endowment Policies or "TEPs" are fixed term investments available on the Policy Trading Market.

This market was established by Life Insurance Policy Exchange Limited in 1994, and since then over \$60 million has been invested in TEPs.

How does the Policy Trading Market work?

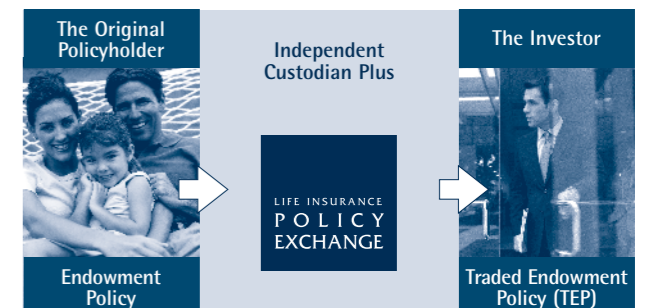
Policy Exchange acquires traditional "with profits" life insurance policies from policyholders who, for various reasons, have decided to cash them in.

Policy Exchange then completes a transfer of ownership to an independent custodian, to ensure all the entitlements and benefits under the policy pass from the original policyholder to the new investor.

Each policy (now referred to as a Traded Endowment Policy) is then made available for sale to institutional and private investors.

New Zealand follows the UK market

The market for traded policies originated in the UK more than 100 years ago and today approximately £400 million of policies are traded annually. Policy Exchange is currently the sole policy trader in New Zealand and operates in a similar manner to the UK market.



How do Traded Endowment Policies Grow in Value?

Traditional "with profits" policies, the basis of a TEP investment, are made up of a fixed amount referred to as the Sum Insured, as well as Bonuses that accrue to the policy either on an annual basis, or at maturity, or both.

Annual bonuses, once they have been allotted, become permanent additions to the policy and cannot be taken away.

Together, the sum insured and accumulated annual bonuses represent the minimum amount payable by the underlying life insurance company

at maturity. This is referred to herein as the 'Locked In' Maturity Value.

Because an investor buys into a policy that has already been in existence for a number of years, they are investing in a contract that has built up a significant 'Locked In' Maturity Value.

From the date of investment through to maturity the investor may also receive further annual bonuses as well as a 'terminal' bonus payable at the maturity date.

Investment Example

Life Company	AXA	
Initial 'Locked In' Maturity Value	\$44,498.00	This is made up of the sum insured plus prior accumulated annual bonuses.
Remaining Term to Maturity	5.70 years	
Projected Maturity Value	\$56,556.00	This is made up of the 'Locked In' Maturity Value plus projected future annual and terminal bonuses
Purchase Price	\$41,685.00	

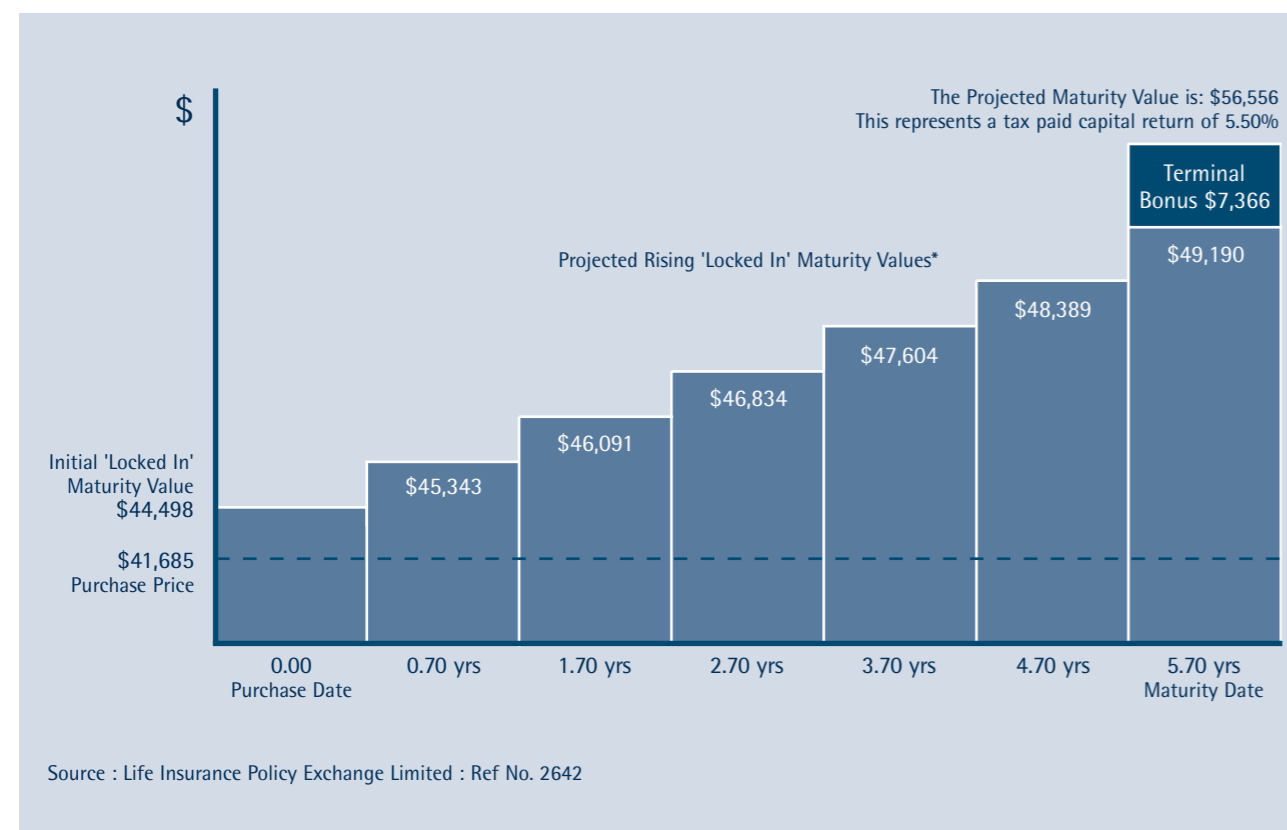
Based on the above details, the

Projected Tax Paid Return is :	5.50%
<i>Pre-tax equivalent at 33c</i>	8.21%
<i>Pre-tax equivalent at 39c</i>	9.02%

Source : Life Insurance Policy Exchange Limited : Ref No. 2642

Growth Chart

The following chart provides an illustration of the initial 'Locked In' Maturity Value compared to the investors purchase price, the rising 'Locked In' Maturity Value via the allocation of annual bonuses, and the makeup of the Projected Maturity Value at the end of the policy term, including the "terminal bonus".



* Each year as further annual bonuses are added to the policy, they become 'Locked In' resulting in a Rising 'Locked In' Maturity Value. This is intended as a guide only, and does not necessarily reflect the growth profile of each policy made available for sale.

Key Product Features

Low Risk

Each Traded Endowment Policy has been issued by reputable New Zealand based insurers such as AMP or AXA. These institutions are usually required to obtain an "Insurer Financial Strength Rating" from international ratings agencies such as Standard & Poors or AM Best.

The "Insurer Financial Strength Rating" provides investors with an independent assessment of the insurers ability to payout against future claims made by policyholders, including TEP investors. Current ratings are available from Policy Exchange on request.

Competitive Tax Paid Returns

For the latest returns please contact Policy Exchange on 0800 476 542.

TEPs are a tax paid investment product. The Inland Revenue Department has confirmed that the maturity proceeds received from a TEP would generally constitute a capital receipt.

However, the tax paid status may not apply to a trader in such financial instruments. If you are unsure about your status it is recommended that you seek advice from your tax adviser.

Upside Potential

The return quoted by Policy Exchange is based on the earnings (or bonus) rates as at the investment date, being maintained by the life insurance company over the remaining term of the investment. If future bonus allocations by the insurer are above the current rate, the investor will receive an enhanced payout at maturity. The opposite is also true.

For a more in depth look at the effect of bonus rate changes, please refer to the section headed "What are my Risks?"

Variable Investment Terms

Subject to a minimum term of 3 years, we can tailor policies to meet the investment horizon of your choice.

What are my Risks?

Capital Risk

The 'Locked In' Maturity Value attaching to the policy as at the investment date, offers 85% - 100% coverage of amount invested.

The 'Locked In' Maturity Value is a contractual obligation of the underlying insurer, and can therefore be considered to be low risk.

Growth Risk

The investors return is dependent on future bonus payouts by the relevant insurer. Bonus rates can go up as well as down.

However, unlike other forms of managed funds, bonus rate volatility from year to year is relatively low. This is because life insurance companies take a long-term view of investment performance and are able to smooth bonus payouts to investors via the build up of reserves in the good years to help maintain bonuses in the not so good years. This is a fundamental concept of traditional "with profits" life insurance based investments.

Source : Life Insurance Policy Exchange Limited : Ref No. 2642		Assumed change in Terminal Bonus Rates		
		-20%	Current Rates	+20%
Assumed change in Annual Bonus Rates	-20%	5.06%	5.56%	6.00%
	Current Rates	5.36%	5.86%	6.30%
	+20%	5.66%	6.16%	6.60%

Please note: The sensitivity of return to bonus rate movements varies from policy to policy. This is intended as a guide only.

Compounding Returns

TEPs provide capital growth, with all earnings compounded annually and paid out by the insurer in one lump sum at maturity.

Professionally Managed

Your TEP investment is held by an independent custodian on your behalf. Along with Policy Exchange, they will ensure timely collection and disbursement of the policy proceeds at maturity.

No Entry Fees

All entry costs are borne by Policy Exchange and will not affect the quoted return.

Maturity Exit Fees

At the end of each policy term both the Custodian and Policy Exchange may be entitled to collect a fee out of the policy proceeds, the amount of which will be reflected on the Investment Summary provided to the investor. However, please note that these fees will already have been factored into the calculation of the policy purchase price and do not affect the quoted return.

Early Redemptions

Should an investor wish to exit a policy prior to its maturity date, they can either surrender it with the underlying insurer for the then cash value, or sell it to Policy Exchange. The surrender value or re-sell value will reflect market conditions at that time and will inevitably lead to a reduced return for the investor. In the majority of cases the best return will always occur at the policy maturity date.

Early Claims

In very rare instances an early claim against a policy may occur where the original life insured dies prior to maturity. Typically, this will result in a higher return to the investor.

Nevertheless, to help investors understand the relationship between bonus rates and return, the following table illustrates the effect of an assumed +/- 20% change in bonus rates for the previous investment example used.

Thus, even with an assumed 20% drop in both annual and terminal bonus rates from the date of investment, the Tax Paid return of 5.06% is still competitive against other quality fixed interest product in the marketplace. On the other hand, if bonuses were to increase by 20% from the investment date, the investor would generate a 6.60% Tax Paid return.

Since policy returns are relatively de-sensitive to bonus adjustments, we describe the projected return as 'predictable'.

Who Should Invest



Traded Endowment Policies are attractive to a wide spectrum of investors.

They are generally viewed as a fixed interest alternative. In terms of their risk profile they sit between high quality investments such as Govt Stock and other fixed interest investments such as Corporate Bonds or Finance Company debenture stock.

TEPs are particularly attractive for :

Superannuation or Retirement Planning
Investors seeking medium term capital growth tailored to match a future retirement date.



Core Portfolio Asset (Fixed Interest)

Individual investors or trustees of family trusts seeking an alternative to traditional fixed interest product.

Education Planning

Investors who wish to provide for a known future requirement such as their children's or grandchildren's education needs. By investing in a TEP there is a high degree of certainty that funds will be available at a known future date.



How to Invest

Stocklist

Each week, Policy Exchange produce's a stocklist of policies available for sale. You can either select the items you require off this list (subject to availability) or you can complete an order form detailing your investment requirements. A TEP Order Form is available on request.

Order Form

As suitable policies come to hand, we will advise you of the specific investment details. Once you have agreed to the items selected, Policy Exchange will forward the documentation required to complete the settlement.

Independent Custodian

The purchase price is payable to the independent Custodian. They will hold the policy on your behalf and assist in collecting and paying the net policy proceeds to you at maturity.

Life Insurance Policy Exchange

Within 3 weeks of settlement Policy Exchange will forward a completed Depository Receipt, Custodial Agreement and Investment Summary confirming the financial details of your investment.

Optional Services

Annual Re-estimation of the Maturity Value

Each year, Policy Exchange is able to re-estimate the maturity value of a policy.

This service is available on request for a fee of \$25.00 per assessment, payable in advance.

Further Information

If you would like further information about how traditional "with profits" policies work, we can obtain and forward to you an

investment statement from one of the insurers whose policies we currently trade.

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