Investing for your future

Your guide to how we manage our unit linked business

Our Unit Linked Principles and Practices

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Note: Text featured in boxes acts as a glossary of terms.

Unit linked funds carry different levels of risk and invest in different types of investment. The value of a fund is not guaranteed and some funds will go up and down in value more than others. You could get back less than you've paid in.

1 This guide

This guide explains how our unit linked funds work and how they are currently managed. You may find it useful if you are considering, or already have, a unit linked policy with Aviva.

We answer some of the questions you might ask. In particular we describe the areas where we can apply discretion and summarise the ways that we exercise this discretion in order to treat all our unit linked customers fairly.

The guide covers our current approach to managing unit linked funds. We may change our approach in the future, provided this is in line with your policy terms and conditions, and if so this document will be updated. The guide may also be updated to take account of other changes, for example changes to the company, products, regulations or tax.

If there are differences between this guide and your policy terms and conditions, the policy terms and conditions will apply.

This guide covers unit linked policies written by Aviva as well as those originally written by Friends Provident, or AXA or some of the companies they have taken over or merged with in the past, principally UK Provident, NM Financial Management, London & Manchester, Equity & Law, Sun Life and Winterthur.

However, it does not cover:

- Policies written by Friends Provident International Limited. Further information is available on our website at **www.fpinternational.com**
- Investments in the with-profits funds. Further information on our with-profits business can be found in our With-Profits Summaries available on our website at **www.aviva.co.uk/ppfm**
- Investments in the Fund Supermarket on My Money.
- A small number of other policies, including Private Funds, and Group Managed Pension Funds.

If, when you have read this guide, you would like further information about your unit linked policy, you may:

- talk to your financial adviser, who may charge you for this service, or
- contact us directly quoting your policy number. See section 9 'How can I contact you?' for details of how to do this.

You may also contact us if you are not sure whether this document covers your policy.

2 What is a unit linked fund?

A unit linked fund is a fund that is linked to a policy issued by an insurance company that combines the contributions you make with those of others investing in the same fund. This gives you an opportunity to invest in a wider range of investments than might otherwise be possible.

Each fund is divided into units. In exchange for each contribution you make, you are allocated units in the funds you have chosen. The amount we will pay under your policy on retirement, maturity or surrender is based on the value of these units, although the underlying investments are owned by us. The units are purely notional and only used as a way of valuing your policy.

We offer different types of Aviva unit linked funds:

- Internal Funds – these funds, managed by investment specialists on behalf of Aviva, invest directly in some or all of the investments mentioned in section 3.
- External Funds – these funds invest in a single OEIC (Open Ended Investment Company), unit trust or fund offered by another insurance company. External fund managers are responsible for the investment decisions for these funds.
- Fund of Funds – these funds invest in a number of the other funds mentioned above.

Unit trusts and OEICs invest in a range of different investments in order to give investors a spread of investment risk and returns.

Reassurance funds

Included within the range of investment funds available are those funds operated by other life insurance companies. These funds are available to you, either directly or as an underlying investment within an available investment fund and allow other insurance companies to make their funds available to your policy. The value of an available investment fund where it is operated by another life insurance company will depend on the value of the assets held by the other life insurance company in respect of its fund. In the unlikely event that the other life insurance company fails to meet its obligations in relation to the available investment fund, the value of your fund will be reduced to reflect that failure.

We offer a wide range of funds, each providing customers with a different level of risk and a different mix of investments. Generally, an increase in risk level represents an increased likelihood of the value of your investment changing significantly. The potential for your money to grow is generally increased, however it will also mean that there is an increased chance of your investment falling and you losing part or all of the money you invested. The value of a fund is not guaranteed and can go down as well as up. You could get back less than you have paid in.

3 How do you work out the value of my investments?

The value of your policy on a given date is based on the number of units and the price of those units. We calculate a price for each of the funds in which you have chosen to invest. For most funds we calculate prices every working day at the valuation point (see section 5).

We calculate prices using a three-stage process.

Firstly, we value the investments of the fund:

- Publicly quoted investments, such as company shares and bonds, are valued using quoted prices.
- Property i.e. land & buildings, is valued using periodic professionally certified valuations.
- Unit trusts and OEICs are valued using the latest available price quoted by the trust or scheme manager.
- Insurance company funds from other insurers are valued using the latest prices provided by those insurance companies.
- Cash, money market investments and deposits are valued at their face value.
- Investments are converted into the fund currency, typically sterling, using foreign exchange rates obtained from reputable data vendors.

Continued on the next page

3 How do you work out the value of my investments?

Continued from previous page

- Other investments, such as unlisted shares, futures and options, are valued using prices from reputable valuers or brokers.
- Where not already included within the values detailed above, we allow for any income due, such as the next dividend payment on a company share.

Secondly, we decide whether the fund is expanding or contracting:

To do this, we look at whether we have been creating new units or cancelling existing units over a recent time period, generally a few months, but possibly for a much shorter period such as a few days. This determines whether the value of the investments of the fund is based on a purchase or sale valuation.

An expanding fund is one for which we have been creating new units for most of a recent time period. We base its value on the amount we would have to pay to buy further investments, allowing for any expenses that would be payable in making the purchase (a purchase valuation).

A contracting fund is one for which we have been cancelling existing units for most of a recent time period. We base its value on the amount we would receive by selling its investments, reduced by any expenses that would be payable in making the sale (a sale valuation).

A sale valuation generates a lower price than a purchase valuation.

Thirdly, using this information, we work out the price at which you can sell units by:

- taking the value of the fund's investments (as described above),
- deducting an amount to pay any anticipated future taxes, fees or levies,
- dividing the result by the total number of units in the fund, and
- rounding the result typically by no more than 0.1p.

For most of our more recent products there is only one price, used for both buying and selling units. Other products invest in funds that have two prices. The lower price, known as the 'bid price', is the price calculated using the methods set out above. The higher price known as the 'offer price', is the price at which you can buy units. The difference between the offer price and the bid price depends on the initial charge (typically between 5% and 6%). As an example, where the charge is 5%, the offer price is the bid price divided by 0.95 and then rounded to the nearer multiple of 0.1p. For buying or selling units, we use the offer or bid price for the day specified in your policy terms and conditions.

If you wish to know whether the product you are invested in uses more than one price, you can find this information in your policy terms and conditions. Alternatively you can contact us – see section 9 for details of how to do this.

Our overall aim is to calculate prices which:

- fairly reflect the value of the underlying investments,
- fairly reflect the charges and expenses we incur, and
- avoid subsidising one group of customers at the expense of another.

We price funds on an expanding or contracting basis to ensure that we are fair to all customers, not only those who are buying or selling units, but also to those remaining in the fund.

What other factors need to be considered for External Funds?

Aviva External Funds invest in funds managed by external fund managers. These underlying funds could be OEICs, unit trusts or funds offered by another insurance company. If you invest in External Funds you are not investing directly in the fund managed by the external fund manager. Instead you are investing in a Aviva fund which then invests in the underlying fund. These funds are sometimes referred to as 'mirror funds'. The price and performance of the External Fund will be different from the underlying fund for a number of reasons, including:

- a difference in charges between the External Fund and underlying fund,
- the time taken to buy or sell holdings in the underlying fund,
- cash held in the External Fund,
- the pricing method used by the underlying fund.

Some underlying funds include their own management charges in their prices. To ensure that the overall charge to you is not greater than disclosed for the fund we may apply rebates or reductions to the Annual Management Charge (AMC) – for more information on AMCs see section 4.

4 How do you allow for expenses and charges?

In managing your policy we incur certain expenses and charges. Expenses are taken directly from the funds and charges are deducted from your policy. The effect of expenses and charges is to reduce the return on your investment.

Expenses taken directly from the fund as they are incurred include:

- expenses to buy or sell any investment,
- expenses to maintain or value any investment,
- levies, including those payable to regulators,
- custodian and auditor fees,
- tax payments.

These expenses reduce the price of units.

Charges are met by deductions on the fund or policy.

These charges cover the cost of a number of activities, including:

- setting up and administering the policy,
- paying claims,
- investing contributions,
- pricing units.

One charge is called the annual management charge or AMC. This charge is expressed as a percentage of the fund.

The AMC is generally calculated daily and is taken from policies in various ways, either as a charge deducted from the fund, reducing the price of units, or by cancelling an appropriate number of units from the policy, usually monthly, or as a combination of the two.

For some External Funds the AMC is split into two parts, a policy AMC and an extra AMC. The extra AMC is payable in addition to the policy AMC.

Where one of our funds invests in another of our funds, we ensure that there is no duplication of the AMC.

Other types of charges may apply to some policies, for example:

- For older policies, units purchased in the early years are often called capital or initial units and have additional charges for all or part of the time the policy is in force.
- Where the fund has both an offer and a bid price (see section 3), the difference between these two prices is effectively a charge, applied when a contribution is made into the policy.
- Less than 100% of the contribution received is invested in units.
- Policy specific charges may be taken from each contribution or directly from the policy by cancelling units, or a combination of the two.

Details of the charges that apply to your policy will be in your policy terms and conditions. Alternatively you can contact us – see section 9 for details of how to do this.

5 How do you manage my investment fairly?

We are committed to acting in line with your policy terms and conditions, with all legal requirements and we comply with the regulatory requirements.

The effective management of unit linked funds will, at times, require us to exercise discretion. The most important areas in which we exercise discretion are:

- **Charges and Expenses**

  Your policy terms and conditions may allow us to change our charges. For example, we may do this if there are increases in our costs, or resulting from a change in the charges levied by a fund manager. Any changes made will be consistent with your policy terms and conditions. You will be notified of any material change in charges.

- **Taxation**

  See section 6

- **Changing the way we price funds between an expanding and contracting basis.**

  We adjust the way we price funds (see section 3) from time to time so that customers buying or selling units pay a fair share of the costs we incur in buying or selling the underlying investments of the fund.

- **Valuation of the fund's investments**

  Where we do not have a current valuation for a particular investment, we may use a previous price, or update the previous price using an appropriate index or other agreed method.

- **Valuation point**

  When calculating unit prices (as described in section 3), we value our funds at a set time (or valuation point) on each working day. The valuation point varies for different fund ranges.

- **Rounding**

  We round prices on a neutral basis by no more than 0.1p and as a result, have an equal chance of rounding prices up as we have of rounding them down.

- ### Deferring Payments

In very rare situations we may delay carrying out your request to switch units or make a payment from your policy. The delay will generally be up to one month (or up to six months for funds invested in property, so that property can be sold if necessary). However, we may extend these periods to match any period of delay, postponement, closure or suspension imposed by the fund managers, or if due to exceptional circumstances, we believe it is in the best interests of those invested in the fund.

- ### New Funds

We may open new funds at any time. You may be able to redirect new contributions or switch the value of existing units to a new fund.

- ### Closing and merging funds

We may close a fund to new contributions, close it completely or merge it with another fund.
If this happens we will give you notice of any such change as early as possible and in line with your policy terms and conditions. If necessary, we will ask you to tell us which alternative fund you would like to invest in. If you do not tell us, you will be placed into an alternative fund in accordance with the policy terms.

- ### Determining income distribution rates

Some funds provide an income in the form of distributions. The distribution is either paid out in cash, or reinvested to buy additional units depending on the option chosen. The amount distributed is based on the income earned since the previous distribution, and is calculated taking account of forecast income, cash and previous distributions.

- ### Box Management

We manage some of our funds by using a 'box'.

A **box** is a pool of units held in a unit linked fund to help with efficient daily operations, avoiding the need for small daily transactions, and reducing the need for frequent changes between sale and purchase valuations.

Box limits are set for the funds to minimise dealing into and out of the fund. If the limits are exceeded then units are created or cancelled in the fund by adding or removing the value of those units from the fund.

During the period we own units in the box we earn the same return on money invested in each fund as you do.

- ### Exceptional circumstances

In exceptional circumstances we reserve the right to suspend trading, suspend unit pricing or diverge from our stated investment strategy. We will use such powers to the minimum extent necessary to protect the fund and our customers.

In exercising our discretion we aim to treat all our customers fairly whether they are joining a fund, leaving a fund, or remaining as an investor within a fund.

Who is responsible for the oversight of unit linked funds?

Our senior management team is responsible for the operation of your unit linked policy. This includes the supervision and management of your chosen funds to ensure that they are managed consistently in accordance with fund guidelines, policy terms and conditions and commitments made to you, and that where any discretion is applied it is done so fairly.
The senior management team has set up committees to identify, measure, monitor and control areas of risk. These committees are advised by experts with specific responsibilities.

6 How do you allow for tax in the unit price?

Pensions

As the investment returns on unit linked funds are not usually subject to UK tax, we make no allowance for UK tax within the value of the funds' assets.

Life

For the vast majority of unit linked investment funds, the value of the fund is adjusted to reflect the tax we expect to pay on investment returns. The allowance for tax in each fund is intended to be a fair approximation of the tax we will pay on investment returns.

As a starting point, all investment growth (adjusted for inflation where appropriate) and investment income are charged at the relevant tax rate, currently the basic income tax rate on most UK asset classes. An exception is the dividend income from company shares, which are mostly not subject to tax in the unit linked funds.

If an asset is sold for less than the original purchase price, the loss can be used to reduce the tax that the fund will pay. Any excess losses are carried forward by each fund and are used to reduce provisions in respect of tax or future taxable income. A limited value may be placed on losses in the unit price.

In some cases, the amount of tax that we expect to pay is not due immediately so a provision, sometimes discounted, is held in the fund and reflected in the unit price. The charges in respect of tax and discounted rates are kept under review and revised as appropriate.

When making assumptions about the way we calculate the tax payable at fund level our aim is to ensure they are fair between different groups of customers, between different funds and between customers and shareholders.

7 How do you identify and correct errors?

Within the pricing process we have a number of regular checks designed to eliminate errors as far as possible, but sometimes they do occur.

If an error has affected a price significantly, and the impact means that an individual customer has lost out by more than £10, we will put that customer back as closely as we can to the position he or she would have been in had the error not occurred. In line with standard industry practice, we will always consider an error of 0.5% or more in unit prices to be significant. If a customer has benefited from a pricing error we may seek to recover this.

8 How can I find more information about individual funds?

More information, including prices and factsheets, is available from our websites.

For My Money funds please follow the Investment Selection link once you are logged on to My Money at **www.avivamymoney.co.uk**

For our other funds please follow the Funds link on our customer website **www.aviva.co.uk**. The fund factsheets include information on the mix of investments in the fund as well as risk information.

There may be restrictions on the funds in which you can invest. It often depends on the type of policy you have. If you need information about the funds available to you, then please contact us quoting your policy number – see section 9 for details of how to do this.

9 How can I contact you?

Aviva is committed to giving you the service you need. If you want to tell us about concerns you have or need more information about your policy, please contact us quoting your policy number. You can do this by using the contact details you already have or as follows:

For My Money funds:

Call us on
0345 604 9915

E-mail us at
mymoney@aviva.com

Write to us at
Aviva
PO Box 2282
Salisbury, SP2 2HY

If you originally took out your policy through Friends Provident or Aviva:

Call us on
0345 602 9199

E-mail us at
customer.services@dgaviva.com

Write to us at
Aviva
PO Box 1550
Salisbury, SP1 2TW

If you originally took out your policy through AXA or Winterthur:

Call us on
0345 300 0479

Write to us at
Aviva
PO Box 582
Bristol, BS34 9FX

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