Old and New With-Profits Sub-Funds

and Investment Summary

| Retirement | Investments | Insurance | Health |

AVIVA

This brochure provides a summary of how we manage the **Aviva Life & Pensions UK Limited Old With-Profits Sub-Fund and New With-Profits Sub-Fund ('the Sub-Funds')**, along with details of the asset mix and investment returns.

Your policy document will show the name of the company your policy was taken out with. If you are unsure which with-profits sub-fund you're invested in, you can find further details at **aviva.co.uk/ppfm**.

Contents

Making sense of it

You may find some of the terms in this guide unfamiliar. To help, we've provided an explanation of the terms in **'What does it mean?'** boxes.

There are two main types of with-profits policies in the Sub-Funds:

Conventional with-profits policies – your investment provides a guaranteed amount (sometimes referred to as the 'sum assured') at maturity or on death.

Unitised with-profits policies – your investment is used to buy units of equal monetary value based on the unit price on the day of the investment.

If your yearly statement or bonus notice shows units and/or unit prices, then you have a **unitised policy**. Otherwise, your policy is a **conventional** one.

There can be other differences between the two types – where appropriate these are highlighted throughout the guide.

What is an Aviva with-profits investment?

At a glance

An Aviva with-profits investment is a low to medium risk investment that has the advantage of pooling your money with that of other investors, so you can benefit from investing in a wide spread of **assets**.

We explain assets in greater detail on page 4.

- The Old With-Profits Sub-Fund and New With-Profits Sub-Fund are rated as a **low to medium volatility** funds.
- An Aviva with-profits investment offers the possibility of higher returns than you may get from an average savings account with a bank or building society. Although there is no fixed term, you should be prepared to invest for at least 5 to 10 years.
- The value of the Sub-Funds can go down as well as up depending on the returns of the underlying mix of assets within the Sub-Funds. We share out the profits and losses of the Sub-Funds through a system of bonuses, with the aim of smoothing the returns on your with-profits investment over the long term.
- We explain smoothing in more detail later, but basically it helps to reduce some of the significant ups and downs of investing in the stock market. We smooth the rises and falls in value by holding back some of the investment returns in good years. We then use them to top up bonuses in poor investment years. Losses made in poor investment years may also reduce returns in good investment years.
- Some products provide guaranteed policy benefits if certain events happen or on specified dates. We explain some of these guarantees in greater detail in the What are the Guarantees? section on page 11.

What does it mean?

Low to medium volatility - 3

Aviva assesses risk ratings using historical performance.

The historical performance of funds with this risk rating has typically experienced low to medium volatility compared with other funds Aviva has rated. This means that these funds have a low to medium potential for substantial changes in value compared with other Aviva funds.

You can find out more about our risk ratings at: **aviva.co.uk/retirement/fund-centre/risk-ratings.html**

Assets

An asset is a type of investment. Different types of assets include equities (company shares), gilts (loans to the UK government), corporate bonds (loans to companies), property or cash and cash alternatives. Assets can rise and fall in value.

Things you need to be aware of

Investing in with-profits may not be appropriate if you:

- expect to need your money in the short term
- are not prepared to accept any risk of losing money
- would prefer the certainty of the interest from a bank or building society savings account, which you are guaranteed to receive once it is earned.

Asset mix

At a glance

We invest your money in the Old and New With-Profits Sub-Funds, which invest in a mix of assets including:

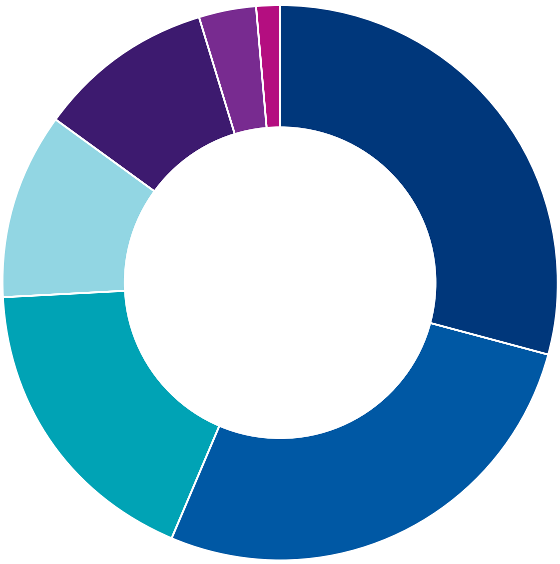
- shares/equities (UK and international)
- property
- fixed interest - corporate bonds (UK and international) and UK gilts
- cash/money market

How do we invest your money?

We invest your money into a broad mix of assets. The asset diagram below shows the type and percentage of each asset that the Sub-Funds invest in.

The Sub-Funds your policy invests in will always hold a mixture of higher and lower risk assets to achieve its objectives.

The Sub-Funds hold a greater proportion of higher risk assets, such as **shares (equities)** and **property**. The rest is in medium and lower risk investments, such as **gilts, corporate bonds, cash/money market**.



Asset Mix as at 31/12/2018

This diagram shows the overall asset mix of the Aviva Life & Pensions UK Limited Old With-Profits Sub-Fund and New With-Profits Sub-Fund as at the end of December 2018.

- UK shares (equities) 29.3%
- International shares (equities) 27.2%
- Property 17.9%
- Fixed interest - UK gilts 10.7%
- Fixed interest - UK corporate bonds 10.2%
- Fixed interest - international bonds 3.5%
- Cash/money market 1.2%

Asset mix (continued)

The performance of the different types of assets varies over time. Our fund managers may change the asset mix to:

- improve the long term performance of the Sub-Funds
- make sure that the Sub-Funds can meet their obligations.

From time to time the Sub-Funds may include investments in other Aviva group companies. However, this will not have a direct effect on the asset mix backing your policy.

What does it mean?

Shares (equities)

Shares (or equities) are shares in companies listed on stock exchanges around the world. As shares can rise and fall in value very easily, equities are riskier than most other investments. However, they usually offer the greatest chance of higher returns over the long term. In our Sub-Funds the equity part of the asset mix includes equity-type assets that are not quoted on stock exchanges, plus alternative investments. We only invest a small proportion in alternative investments, typically less than 5%.

Property

This is investment in commercial property such as shopping centres and business offices. The value of property can go down as well as up, and property may take longer to buy and sell than other types of investment.

Fixed interest

Fixed interest investments include government and corporate bonds. These are loans issued by the government or a company as a way for them to borrow money. The government or company pays interest and promises to pay back the debt at a certain point in the future. The value of fixed interest investments can go down as well as up. Government bonds issued by the UK government are referred to as gilts.

If a government or a company defaults on the loan then the interest will not be paid. UK gilts are regarded as less risky than corporate bonds as the UK government has a good credit rating.

Cash/money market

Cash means a range of short-term deposits – similar to a bank/building society account. Cash also includes money market securities, which are interest generating investments, issued by governments, banks and other major institutions. The value of cash and money market securities can go down as well as up.

The table below shows the mix of assets of the Sub-Funds in recent years.

	31.12.18 %	31.12.17 %	31.12.16 %	31.12.15 %	31.12.14 %
UK shares (equities)	29.3	27.1	26.4	28.7	34.6
International shares (equities)	27.2	36.1	33.6	23.3	18.3
Property	17.9	15.0	17.4	18.2	18.0
Fixed interest - UK gilts	10.7	7.6	6.8	5.3	3.9
Fixed interest - UK corporate bonds	10.2	11.3	11.9	13.8	16.5
Fixed interest - international bonds	3.5	2.3	2.5	3.0	5.3
Cash/money market	1.2	0.6	1.4	7.7	3.4
	100.0	100.0	100.0	100.0	100.0

Investment returns and market overview

Investment Returns

The investment returns achieved in each of the last five years are as follows:

	2018	2017	2016	2015	2014
before tax (pensions)	-2.5%	8.9%	12.1%	6.0%	8.0%
after tax (life/savings)	-2.0%	7.3%	9.9%	5.2%	6.7%

The returns above are on the whole Sub-Funds and are not applicable to any individual policy or plan.

This is past performance. Past performance is not a guide to the future.

Investment markets in 2018

Equity markets generally performed poorly in 2018, with the exception of the US which made modest gains in sterling terms, helped by the weakness of the pound relative to the dollar. UK government bond (gilt) prices edged slightly higher but UK corporate bonds made a small loss over the year.

The main factors affecting performance were investors' concerns about the reduction of economic support from central banks plus interest rate increases, fears of a global trade war, political risk in Europe and uncertainty around Brexit and its effects.

The FTSE®* 100 share index, a commonly used indicator of the performance of UK shares, showed a total return of minus 8.8% (see Note 1), while UK corporate bonds returned minus 1.5%. (see Note 2).

Notes:

1 Source: Lipper IM, a Thomson Reuters company. FTSE®* 100 Total Return Index.

2 Source: Lipper IM, a Thomson Reuters company. Markit iBoxx Sterling Non Gilts Overall TR Index.

What affects how much you might get?

The amount you get back will depend on the amount you invest, plus:

- how the Sub-Funds have performed during the time you have invested with us
- the way we apply the smoothing process
- the effect of any guarantees (shown in your policy documents)
- our charges, such as administration costs, investment management fees and any financial adviser commission or charges.
- any tax we pay and any future tax changes (pensions currently receive favourable tax treatment)
- for unitised policies any early exit charges (where applicable), withdrawals (where these are allowed), and whether we are applying a market value reduction when you move money out of the Sub-Funds.

Smoothing – how it works

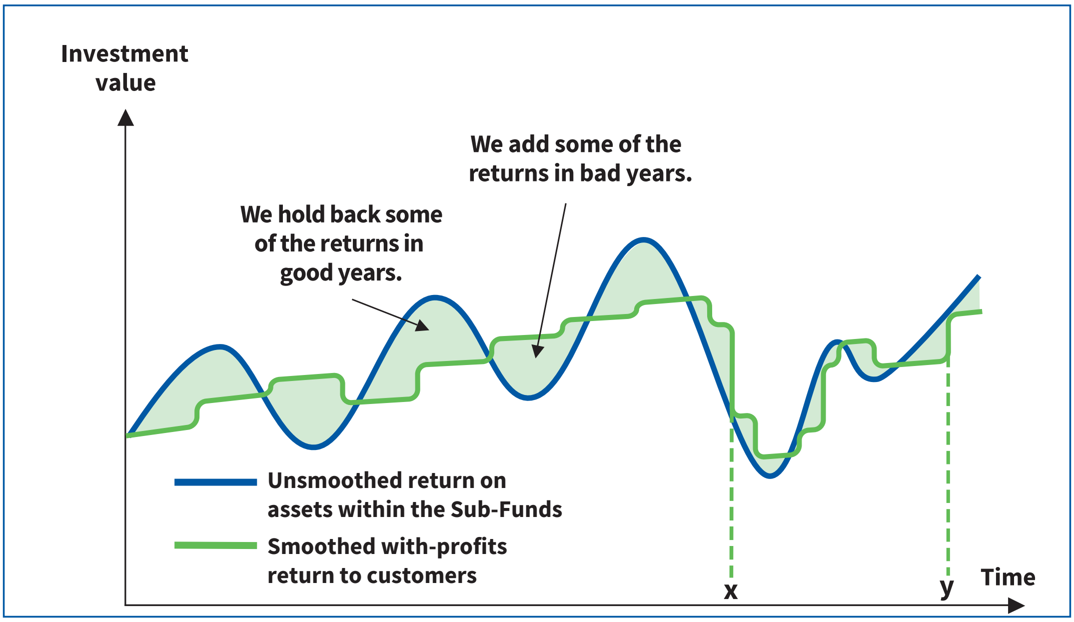
At a glance

One of the main features of a with-profits investment is that it aims to grow in value smoothly from year to year rather than being affected by the significant ups and downs of the stock market.

Over time the value of the assets held by the Sub-Funds will rise or fall. We do not change bonus rates as often as the value of the assets changes. Instead we aim to even out some of these variations in performance. This is known as smoothing. We show this with the green line in the diagram below. In contrast, the unsmoothed Sub-Funds' value changes each day as the value of the assets goes up and down. This is shown by the blue line in the diagram.

Smoothing applies to both **conventional** and **unitised** policies.

The following diagram is for illustration purposes only and shows a period of positive growth overall, which is not guaranteed.



Things you need to be aware of

There may be times in poor market conditions when smoothing can't fully protect your investment, as illustrated between points **x and y** in the diagram above. This can happen following a large or sustained fall in the stock markets or when investment returns are below the level we normally expect. If you leave the Sub-Funds under these circumstances, this could reduce the value of your investment. This is explained in more detail under the heading 'What happens if you leave the Sub-Funds early?' on page 12.

Bonuses – how do we add the bonuses?

We share out the returns the Sub-Funds earn through a system of bonuses. There are different types of bonuses:

Regular bonus

Regular bonuses are designed to be sustainable and provide steady growth over time in the value of your investment. We decide regular bonus rates at least once a year.

Final bonus

Final bonus aims to pay the balance between the regular bonus already added and the performance of the Sub-Funds over the whole period of your investment. This makes sure that you get a fair share of the return your investment has earned.

Bonuses can vary and are not guaranteed.

Bonuses

You can usually see any regular bonus details in your yearly statement. The rate will vary over the period of your investment.

We decide the bonuses by looking at:

- how the Sub-Funds have performed in the current year
- any returns or losses from earlier years that we have not already shared out through smoothing
- what we expect to earn in future years, and the effect of smoothing.

Regular bonus

Unitised Policies	Conventional policies
We calculate your share of your investment in the Sub-Funds in units. We add the regular bonus, if any, to your investment by increasing the price of the units you have. This means that the number of units you hold stays the same, but the value of these units increases and reflects the bonus rate we've set.	We may add regular bonuses, if any, once a year to the guaranteed amount. Conventional with-profits policies can receive two types of regular bonus, which are added on top of the initial guaranteed amount. This is calculated as: • a proportion of the initial guaranteed amount; and • a proportion of any bonuses we've added previously. Once added, we guarantee that the regular bonus will be paid at your chosen retirement date, the policy's maturity date or on death.

Things you need to be aware of

- A regular bonus is not the same as interest from a bank or building society.
- We don't guarantee to add a regular bonus to your investment each year. This is illustrated on the diagrams on the next page at years 1 and 9 for unitised policies, and at years 1, 11, 17 and 19 for conventional policies.
- It's likely that bonuses will be smaller in poor investment years than in good years.

Bonuses– how do we add the bonuses? (continued)

Final bonus

We aim to pay a final bonus to increase the value of your policy:

- if you die
- if you transfer your pension or cash in your policy
- at maturity, for endowments, or at your chosen retirement date, for pensions
- if you switch out of the Sub-Funds into another investment fund (unitised policies only).

We normally review final bonus rates twice a year. However, we may review them more frequently if there are large changes in investment markets. Final bonus rates can change at any time, are not guaranteed and could be zero.

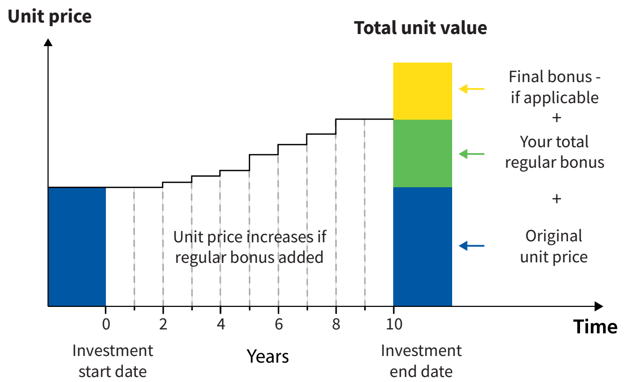
Additional bonus

If you have invested in the With-Profit Income Fund through a bond, you'll receive an additional bonus instead of a final bonus.

- We don't necessarily pay the additional bonus every year and it may change from year to year.
- As with other bonus rates, we review the additional bonus at least once a year, but may do this more often.
- As bonus rates can vary, the level of income you receive can also vary over time.

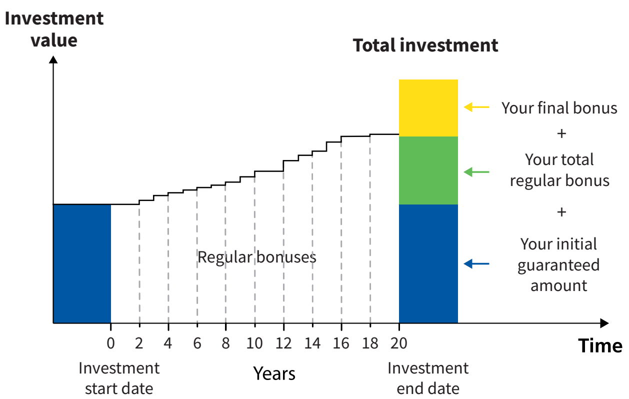
Unitised Policies

The diagram shows how we add regular bonuses to your original investment.



Conventional Policies

The diagram shows how we add regular bonuses to your initial guaranteed amount to build up a larger lump sum.



These diagrams are for illustration purposes only and show periods of positive growth overall, which is not guaranteed. The terms illustrated are not the minimum or maximum period of investment for with-profits.

Things you need to be aware of

For Unitised and Conventional policies:

- The final bonus is based on the year in which you invested and the point at which you leave the Sub-Funds. It may vary with returns earned over the lifetime of your investment and is not guaranteed.
- If the investment return has been low over the period you invested, you may not receive a final bonus as you will have already received your share of the returns through regular bonuses.
- We use a typical policy rather than individual policies when setting final bonus rates for policies issued in the same year.

For Unitised Policies only:

- If a **market value reduction** is in place then this can reduce the effect of any final bonus and you may get back less than you invested. We will tell you if a market value reduction is applying before you take money out of the Sub-Funds so you have the opportunity to change your mind.

What does it mean?

Market Value Reduction

This is a reduction we sometimes have to make so that customers who remain invested in the Sub-Funds are not disadvantaged when others choose to leave.

An example showing why we may make a market value reduction

If there are three investors in a fund who each invest £10,000, the total fund is worth £30,000. If stock markets fall by 20% and the total fund value drops to £24,000, this would mean that if one investor withdraws their original £10,000 without a market value reduction in place, it would only leave £14,000 to be shared between the remaining two investors.

What are the Guarantees?

Some conventional and unitised products provide guaranteed policy benefits if certain events happen or on dates as set out in your policy document.

For example, the event may be your policy's maturity date as agreed when you took it out. Or, for a pension policy, it may be the date you chose to retire when you started the policy. Your policy documents will set out any guarantees.

Unitised Policies

Guarantees (Unitised policies invested in these Sub-Funds only)

For pensions

If you keep your money invested in the Sub-Funds until the retirement date you originally chose or your death, we will not apply a market value reduction.

However, we may apply a market value reduction at your originally selected retirement date if any of the following apply:

- you started your plan within a set period* of your original retirement date
- you have made any new one-off investments or increased your regular contributions (except those automatically increasing in line with average earnings) within a set period* of your original retirement date
- you switched into the Sub-Funds within a set period* of your original retirement.

* The set period differs depending on the pension product you are invested in. Please refer to your policy terms and conditions for further details.

We can't guarantee the amount you will get back if you move out of the Sub-Funds before or after your originally selected retirement date.

For investment bonds

Your policy document outlines any specific guarantees you may have. The policy document confirms the point(s) at which you could get back at least your original investment, and you should refer to this for more details.

We won't apply a market value reduction if the investment is cashed in following the life assured's death.

If you take regular withdrawals from your investment, we won't apply a market value reduction to withdrawals of up to 5% each year of the fund value on the date you start to take the regular withdrawals.

With-Profit Income Fund option

If you choose natural income, we guarantee that we will not apply a market value reduction to the income you receive.

For other savings and mortgage policies

At the end of the policy term or when you die, we guarantee to pay the regular bonuses applicable to your policy at that time.

Conventional Policies

Guarantees (Conventional policies invested in these Sub-Funds only)

At the end of your policy term, we'll pay the basic guaranteed benefit as well as any regular bonus we've already added. We'll do this even if the stock market falls significantly.

For pensions

Some pension policies may offer guaranteed annuity options. Please read your policy document to find out if this applies to you.

You should also read your policy documents to find out what happens if you die before the end of your policy term. It will tell you how we work out the death benefit.

For life policies

If you have a life policy, you won't have a guarantee if you choose to cash in your policy early.

If you die with your life policy still in place, we'll pay the greater of:

- the basic guaranteed benefit plus any regular bonus we've already added

  and
- the minimum life assurance amount.

Things you need to be aware of

As these guarantees are valuable, we recommend you seek financial advice before withdrawing, switching or surrendering any benefits in the future.

What happens if you leave the Sub-Funds early?

You may decide to move some or all of your investment out of the Sub-Funds early. For example, where your policy allows, you might:

- cash in your policy
- transfer to another company; or
- switch to another type of fund (only available for unitised with-profits policies).

You should view with-profits investments as a long-term investment. This means leaving the Sub-Funds early may be the wrong option for you, especially if you have guarantees.

If you're considering leaving the Sub-Funds we'd strongly suggest that you talk to your financial adviser or contact us directly. You can call us on the telephone number shown on your annual statement.

Unitised Policies

We work out the cash-in, transfer or switch value by looking at the value of units in your policy and then apply any deduction as described in your policy documents. We may then add a final bonus.

There may be times in poor market conditions or when investment returns are below the level we normally expect when we would apply a **market value reduction** if you move out of the Sub-Funds.

Market value reductions only apply to unitised with-profits policies. It's a reduction made to ensure that policyholders who remain in the Sub-Funds are not disadvantaged when others leave.

If you move out of the Sub-Funds when a market value reduction is in place it will reduce the value of your investment. This means you could get back less than you have invested. We will not apply it to your policy on your selected retirement date, on maturity or on death. However, we may apply it on your selected retirement date if you have made any additional single payments, transfer payments or switches into the Sub-Funds within a set period of your original retirement date. Please refer to your policy terms and conditions for further details.

If you tell us you want to move your money out of the Sub-Funds we'll let you know if a market value reduction will be applied before taking your money out of the Sub-Funds. This gives you the chance to change your mind.

Conventional policies

If you move your money out of a conventional with-profits policy (eg. surrender before the maturity date or transfer before the selected retirement date) we will reduce the policy's guaranteed benefits to reflect that you have paid fewer premiums and been invested in the Sub-Funds for a shorter time than we expected when you took out the policy. We may add a final bonus.

Questions and Answers

What is the With Profits Committee?

Our customers are at the heart of everything we do and we are fully committed to treating them fairly at all times.

To support this, we have a With Profits Committee which oversees our work with independent expertise to make sure our decisions relating to with-profits investments are fair.

You can find out more about our With Profits Committee at **aviva.co.uk/wpcommittee**.

How are business risks managed?

There are a few factors which could have an impact on the Sub-Funds.

We call these factors business risks. These may change over time and may include:

- the amount of new business we sell and the terms we offer
- the cost of any guarantees we offer
- the Sub-Funds' expenses being higher than planned.

As business risks could affect the returns earned by the Sub-Funds, we continually assess the risks to see if they:

- are acceptable to the Sub-Funds
- provide an adequate return compared with the risk we take.

What is the inherited estate?

- Our Old and New With-Profits Sub-Funds are supported by more money than we expect to pay out to existing policyholders. The extra money is known as the inherited estate and we use this to support smoothing and guarantees.
- The size of the inherited estate is important as it gives us: the flexibility to invest in a wider range of assets; a cushion of extra security to protect investors when investment returns are low; a greater ability to smooth the returns you receive.
- The estate also provides **solvency capital** for our with-profits business, and will normally absorb any profits or losses caused by the business risks.

What are policyholder and shareholder interests?

There are two groups who have an interest in the Sub-Funds – **policyholders** and **shareholders**. We must make sure that any decisions we make about how we run the Sub-Funds are fair to everyone.

This means we have to balance the interests of:

- policyholders whose investments start at different times
- policyholders who move money out of the Sub-Funds and those who keep their money invested in it; and
- our shareholders.

We take all this into consideration in the way we run the Sub-Funds. We allocate at least 90% of the returns on the Old and New With-Profits Sub-Funds (other than returns on the inherited estate that are earmarked for shareholders) to policyholders, with the remaining 10% to shareholders.

What does it mean?

Policyholders have invested their money in the Sub-Funds.

Shareholders own a stake in our total business.

Solvency capital is capital that allows Aviva to demonstrate that the assets of our Sub-Funds are worth more than their liabilities and that we'll be able to meet our obligations even if we suffer losses.

Where can I find out more?

We hope this guide has helped you understand how our Old and New With-Profits Sub-Funds work.

This guide is only meant to be a summary. We also have a detailed document, called the **Principles and Practices of Financial Management (PPFM)**, which is produced in line with guidance from our regulator, the Financial Conduct Authority. You can find it and more on our website: **aviva.co.uk/ppfm/#new-old**

If there are any differences between the information in the two guides, you should take the Principles and Practices of Financial Management as the final word.

You can see a summary of any changes to our PPFM on our website together with our yearly compliance statement.

You can also contact us for a copy of these guides or for more information by calling **0800 068 6800**.
Calls may be recorded and/or monitored for the purposes of training and quality assurance.

Write to us at:
Aviva, PO Box 520
Surrey Street, Norwich
NR1 3WG

You can use the link below to find out more about our Sub-Funds at:
aviva.co.uk/ppfm

If you have any questions about your investment you can talk to your financial adviser. They will be able to consider your current circumstances and financial goals.

If you don't have a financial adviser, one can be found at **www.unbiased.co.uk**.

Please note your financial adviser may charge you for any advice provided.

The 'My Aviva' website can provide you with information at the click of a mouse. Access to 'My Aviva' requires a customer password login.

Go to **myaviva.co.uk** to:

- access more information about the funds available to your policy.
- value your investments online; and
- change your personal details online.

Most customers can register, but we're continually adding more types of policy to MyAviva, so don't worry if you can't see yours.

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