

Important information

A guide to your with-profits investment and how we manage our **With-Profit Fund**

For customers investing through pension plans.

This guide is important as it aims to answer some of the questions you might have about with-profits investments.

You may find it helpful to refer back to this guide during discussions with your financial adviser or when you receive:

- an illustration of what your With-Profit Fund might be worth
- your annual statement.

Making sense of it

If you are new to with-profits investments, you may find some of the terms in this guide unfamiliar or a bit complicated. We've provided an explanation of the terms in 'What does it mean?' boxes.

If you would like any more information, you can contact us by calling or writing to us.

Call us on **0800 068 6800**

Calls may be recorded and/or monitored for our joint protection.

Write to us at:

Aviva
PO Box 520
Surrey Street
Norwich
NR1 3WG

You can also use the following link to find out more about our With-Profit Fund at: withprofitsfunds.co.uk

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What is an Aviva with-profits investment?

- 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 wider spread of **assets**.
- The objective of our With-Profit Fund is to offer the possibility of higher returns than you may get from an average savings account with a bank or building society. Although the fund has no fixed term, you should be prepared to invest for at least five to 10 years.
- The value of a with-profits investment can move up and down and this means it may be worth less than has been paid in. However, the main difference between with-profits and other investments is that the value is smoothed 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 top up some of the investment returns in years where investment performance is lower.

How is my money invested?

- We pool your money with that of other investors in the With-Profit Fund. It is used to buy **units** equal to the amount of your investment. The value of your investment then changes over time in line with the performance of the fund.
- The Fund invests in a range of different **assets** (including **shares/equities**, property, corporate bonds, gilts, **cash and cash alternatives**), and we may vary these over time. We do this with the aim of achieving balanced returns.
- There may be times in poor market conditions when we would apply a market value reduction if you move money out of the fund. This is explained in detail later.

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.

The With-Profits Fund is not available for money invested in income drawdown.

What does it mean?

Low to medium risk

Low to medium risk investments are expected to provide better long-term returns than savings accounts, although there is still a risk that the value of the investment could fall. You can find out more about risk and return ratings at aviva.co.uk/retirement/fund-centre/risk-ratings.html.

What does it mean?

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.

You can find definitions of the asset types on page 5.

What does it mean?

Units

We divide your investment into units of equal monetary value. The number of units you buy with your investment depends on the unit price of the fund on the day that you invest your money in the With-Profit Fund.

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 tend to be riskier than the main types of investments we mentioned above.

What does it mean?

Cash and cash alternatives

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

With-Profit Fund - at a glance

Asset mix

We use our investment expertise to determine the right asset mix.

We invest your money in the With-Profit Fund, which invests in a mix of assets, including:

- shares/equities (UK and international)
- property
- gilts
- corporate bonds (UK and international)
- cash and cash alternatives.

We explain more about the asset mix of the With-Profit Fund on page 5.

Smoothing

We smooth the returns from the fund.

One of the main features of our With-Profit Fund 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.

We explain smoothing in greater detail on page 6.

Market value reduction

There may be times in poor market conditions when we would apply a market value reduction if you move money out of your fund. We'll let you know if a market value reduction is applying before moving money out of your fund.

We explain more about market value reductions on pages 6 and 8.

Bonuses

We decide the bonuses you receive.

We share out the returns the fund earns through a system of bonuses. There are different types of bonuses:

- **Regular bonus**
We decide the regular bonus at least once a year.
- **Final bonus**
You may receive a final bonus when you decide to take your benefits.
- Bonuses can vary and are not guaranteed

We explain more about bonuses on page 7.

With-Profit Fund - in more detail

How do you invest my money?

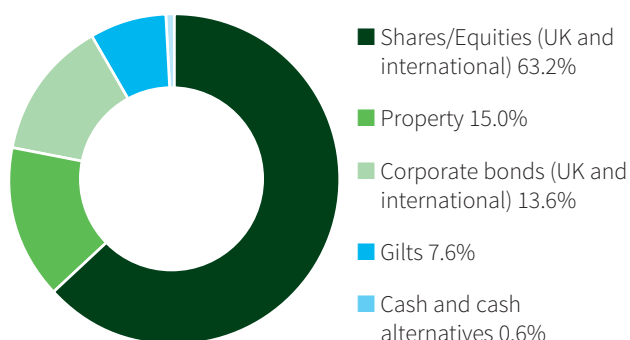
In simple terms, we invest your money into a broad range of assets. The asset mix diagram below shows which assets the fund invests in and the percentage of the fund that is invested in each.

The value of your investment depends on the asset mix, how each asset performs and the effects of charges. You can find the charges for your investment in the illustrations you've received.

The fund will always hold a mixture of higher and lower risk assets to achieve its aims.

We hold over 75% of the fund in higher risk assets, such as **shares/equities** and **property**. The rest is in medium and lower risk investments, such as **gilts, corporate bonds, cash and cash alternatives**.

This diagram shows the asset mix of the main Aviva With-Profits Sub-Fund as at the end of December 2017.



If you'd like more details on the asset mix, our fund factsheets are available on our Fund Centre at [aviva.co.uk/retirement/fund-centre/](https://www.aviva.co.uk/retirement/fund-centre/).

The performance of the different types of assets varies over time. Our fund managers have a strong tradition of managing investments in all market conditions, and we may change the asset mix to:

- improve the long term performance of the fund.
- make sure that the fund can meet its obligations.

From time to time, this fund 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 With-Profit Fund 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 may take longer to buy and sell than other types of investment.

Gilts

Gilts can include bonds issued by the UK government as a way for them to borrow money, usually for a fixed term. The government pays interest on the loan. Gilts issued by the UK government are generally seen as lower risk investments than bonds issued by companies (corporate bonds).

Corporate bonds

Corporate bonds are issued by UK and international companies as a way for them to borrow money. The company pays interest on the loan and promises to repay the debt at a certain point in time.

They are seen as riskier investments than UK gilts. This is because companies are more likely to fail to repay the loan than the UK government. However, they often offer a higher rate of return to balance out this higher risk.

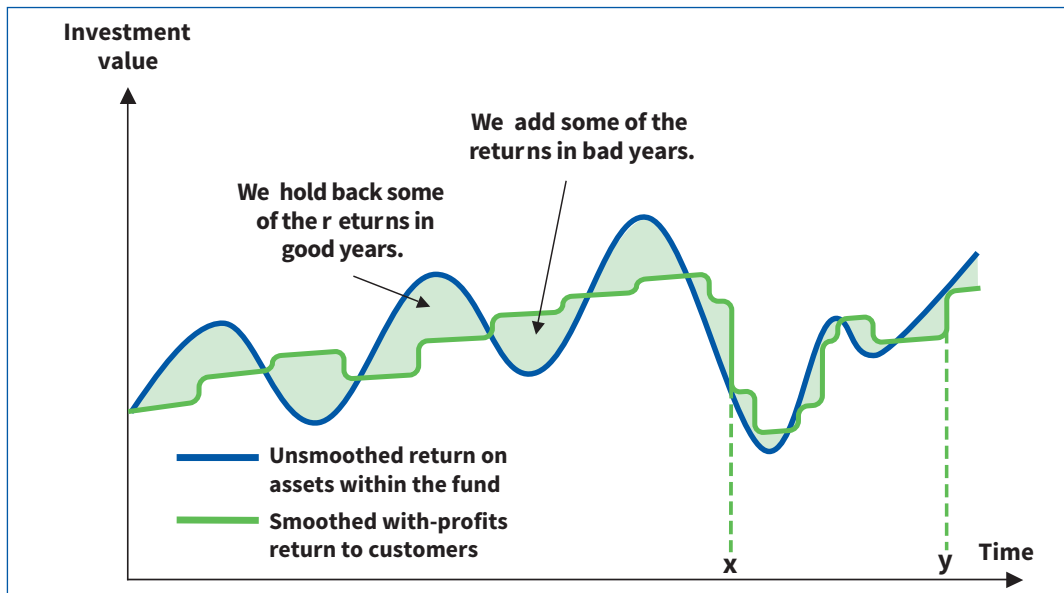
Cash and cash alternatives

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

How smoothing works

With smoothing we keep back some of the returns the With-Profit Fund earns in good investment years and use them to help pay bonuses in poor investment years. Losses made in poor investment years may also reduce returns in good investment years.

In a with-profit fund, instead of simply sharing out what the fund makes – or loses – each year, the fund aims to even out some of these variations in performance. We show this with the green line in the diagram below. In contrast, the unsmoothed fund value changes each day as the value of the assets goes up and down. This is shown by the blue line in the diagram.



This 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 are times when we may apply a **market value reduction**. 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 move money out of the fund when a market value reduction is applying, you'll get back less, as shown in the diagram between points **x** and **y**.

There is more information about market value reductions in the 'What affects how much my fund might be worth?' section on page 8. Over the long term, the amount we pay out across all with-profits customers' policies will average 100% of the unsmoothed value (i.e. the blue line in the diagram above.) As an individual customer, your fund could be worth more or less than this. However, the difference between the unsmoothed value (blue line) and the smoothed value (green line) will rarely be more than 20%.

What does it mean?

Market value reduction

This is a reduction we sometimes have to make so that customers who remain invested in the With-Profit Fund 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 the With-Profit 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. See page 8 for further details.

What are the bonuses?

We add your share of the returns earned by the With-Profit Fund to your investment through bonuses.

There are two main types of bonus; **regular bonus** and **final bonus**. We show the regular bonus rate in your annual statement. The rate will vary over the period of your investment.

We decide the bonuses by looking at:

- how the fund has 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.

How do you add the 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. We calculate your share of the fund in units. We add the bonus to your pension fund 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.

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 indicated at years one and nine in the diagram below.
- It's likely that bonuses will be smaller in poor investment years than in good years.

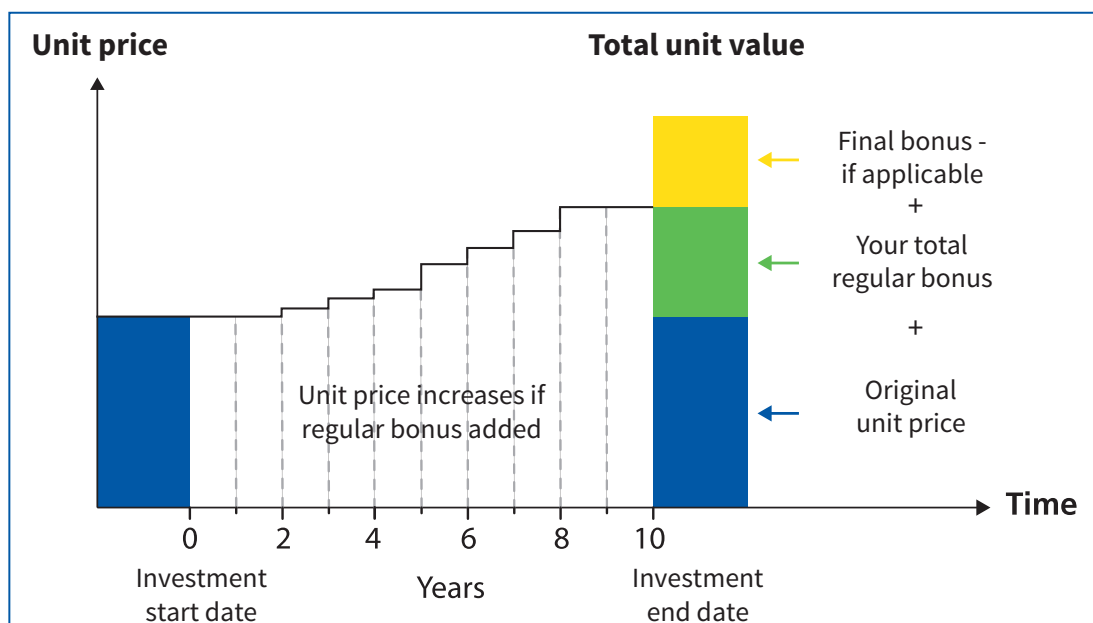
Final bonus

Final bonus aims to pay any balance between the regular bonuses we have already added and the performance of the fund over the whole period of your investment. You may receive a final bonus when you take your benefits. This makes sure that you get a fair share of the return your investment has earned.

Things you need to be aware of

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

The diagram below shows how we add regular bonuses to your original investment. This is for illustration purposes only and shows a period of positive growth overall, which is not guaranteed. You should be prepared to invest in the With-Profit Fund for at least five to 10 years.



What affects how much my fund might be worth?

This will depend on the amount you invest, plus:

- the fund performance during the time you have invested with us and any final bonus or market value reduction that applies when you leave the fund
- any guarantee points, shown in your plan terms and conditions
- whether you have moved any money out of the fund
- our charges

Fund performance

As we mentioned in the section explaining the asset mix on page 5, the performance of the fund depends on the performance of the assets in which it invests. If the assets perform well, so will the fund. As the With-Profit Fund invests in a broad range of assets, if one type of asset is performing poorly, another type may perform well. This may in turn help to balance out the performance overall.

If you'd like up-to-date information about the With-Profit Fund, visit aviva.co.uk/retirement/fund-centre/ and click on the 'visit the Aviva Fund Centre' tab. We regularly update the fund centre with the latest fund factsheets for all our funds. You can use these to find out more about the funds' investments, the risk rating, objectives and more.

Market value reduction

As previously mentioned, a market value reduction is a way of protecting investors during periods when investment returns are below the level we normally expect or following a large or sustained fall in the stock market. We apply a market value reduction to make sure that all investors receive their fair share of the returns earned over the period of their investment.

We constantly monitor investment conditions and the total amount of money being taken out of the fund. We may apply a market value reduction at any time if we think this is necessary to protect investors remaining in the fund. This will affect you if you want to move your money **(unless a guarantee is in force at the time)**. If you tell us you want to move your money out of the fund, we'll let you know if a market value reduction is in place before taking your money out of the fund. This gives you the chance to change your mind.

Things you need to be aware of

The value of your pension fund could be less than the amount invested if you move your investment when a market value reduction is in place.

What guarantees do I have?

We guarantee we will not apply a market value reduction on your death.

If you keep your money invested in the With-Profit Fund until the retirement date you originally chose we will not apply a market value reduction.

However, this doesn't apply:

- if you started your plan within five years of your chosen retirement date
- to new one-off investments or increase to regular payments (except those automatically increasing in line with average earnings) made within five years of your chosen retirement date
- to any existing investment moved into the With-Profit Fund within five years of your chosen retirement date
- to switches into the With-Profit Fund within five years of your chosen retirement date.

If you move out of the With-Profit Fund before or after your originally selected retirement date, we may apply a market value reduction when you take your benefits.

The guarantees described above don't apply to investments in the With-Profit Fund through the Trustee Investment Plan. To find out more, please contact us.

Moving your money out of the fund

If you move all or part of your money to another fund or another pension provider, or if you take your benefits early, this will affect the final value of your pension fund.

Charges

You'll pay charges for administration, expenses, investment management and any financial adviser commission or charges. The difference between the charges we set and the expenses we have to pay goes towards our business profit.

You can find the charges for your investment in the illustrations you've received. Please see your financial adviser for more information on charges.

What else should I know about how you manage the With-Profit Fund?

With-Profits committee

Our customers are at the heart of everything we do and we are fully committed to treating you 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.

Managing the business risks the With-Profit Fund may be exposed to

There are a few things which could affect the funds. We call these 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 fund's expenses being higher than planned.

As business risks could affect the returns the With-Profit Fund earns, we continually assess the risks to see if they:

- are acceptable to the fund
- provide an acceptable return compared with the risk we take.

The inherited estate

Our With-Profit Fund is 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 (described above).

What does it mean?

Solvency capital

Capital that allows us to demonstrate that the assets of our With-Profit Fund are worth more than its liabilities and that we'll be able to meet our obligations even if we suffer losses.

Since October 2009 we have earmarked part of the inherited estate for shareholders in line with arrangements approved by the High Court. However, the inherited estate is still meant to protect our customers' benefits. New customers investing in the fund since October 2009 might benefit from distributions from the part of the inherited estate that isn't earmarked for shareholders. There is more information on this in our Principles and Practices of Financial Management (see overleaf for details).

Policyholder and shareholder interests

There are two groups who have an interest in the With-Profit Fund – **policyholders** and **shareholders**.

We must make sure that any decisions we make about how we run the fund are fair to everyone. This means we have to balance the interests of:

- policyholders whose investments start at different times
- policyholders who leave the fund and those who keep their money invested in it
- our shareholders.

We take all this into consideration in the way we run the fund. We allocate at least 90% of the returns on the With-Profit Fund (other than returns on the inherited estate that are earmarked for shareholders) to policyholders and 10% to shareholders.

What does it mean?

Policyholder and shareholder interests

- Policyholders have invested their money in the fund.
- Shareholders own a stake in our total business.

Regulations

Aviva Life & Pension UK Limited are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and must follow UK law. If laws or regulations that affect financial services change in the future, this may affect your investment.

Tax

Any growth in the With-Profit Fund, when investing through pension plans, will be largely free of tax on any income and capital gains. Some investment returns may be received with tax credits, or after tax deductions, which cannot be reclaimed. We take this into consideration when we set the bonus rates in line with our understanding of tax rules and regulations. Tax law may change in the future.

How tax affects your pension fund will depend on your personal circumstances. Your financial adviser will be able to help you understand this more.

Where can I find out more?

We hope this guide has helped you understand how our With-Profit Fund works.

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 on our website: [aviva.co.uk/ppfm](https://www.aviva.co.uk/ppfm), under the heading 'Aviva Life & Pensions UK Limited Old and New With-Profits Sub-Funds' and selecting the document 'PPFM for Aviva Life and Pensions UK Limited Old and New With-Profits Sub-Funds.'

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 also invest in the With-Profit Fund through an investment bond or an annuity which each have separate guides. You can see these on our website at [aviva.co.uk/ppfm](https://www.aviva.co.uk/ppfm).

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 our joint protection.

If you have any questions about investing in our With-Profit Fund, you can talk to your financial adviser. They will be able to consider your current circumstances and financial goals and give you advice on whether this is a suitable investment for you.

In addition, The Money Advice Service has a website dedicated to financial education, which includes information about with-profits investment, [moneyadvice.org.uk](https://www.moneyadvice.org.uk)

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