Update on how we manage the With-Profit Fund

Aviva Life & Pensions UK Limited With-Profits Sub-Fund

With Profits Pension Annuity

AVIVA

This update tells you how the With-Profit Fund has performed recently and summarises the approach we've taken to managing your investment.

Our Principles and Practices of Financial Management (PPFM) gives more detailed and technical information about how we manage the With-Profit Fund. You can download a copy from our website **aviva.co.uk/ppfm**, where you will also find:

- a summary of any changes to the PPFM
- our annual compliance statement
- a link to our customer friendly PPFM. This provides a step-by-step guide, with diagrams, illustrating how we manage our fund.

You can also ask your financial adviser or contact us directly for a copy of these documents.

You can call us on **0800 068 6800**

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

Or write to us at:
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1. What is a with-profit investment?

An Aviva with-profits investment at a glance
• It's a low to medium risk investment. • It pools your money with that of other investors into the With-Profit Fund. • It lets you invest in a wide spread of assets, including equities, property, corporate bonds, gilts, cash and cash alternatives. • The value of the With-Profit Fund can move up and down. With-profits shares out the profits and losses of the fund to its investors. This is achieved through a system of bonuses. In deciding the bonuses we aim to smooth the income you receive on your plan over the long term. • It benefits from smoothing, so the value doesn't fluctuate as much as direct equity investments. We explain smoothing in Section 5.

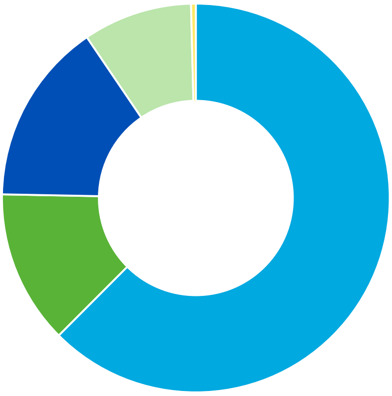
2. How does Aviva invest my money?

We invest your money into a broad range of assets called the asset mix. The fund will always hold a mixture of higher and lower risk assets to achieve its objectives.

The asset mix diagram below shows which assets the fund invests in and the weighting currently given to each.

The value of your plan depends on the mix of assets backing your plan and how each asset performs.

The diagram below shows the asset mix as at the end of December 2017. The figures in brackets show the asset mix as at the end of December 2016.



- Equities (UK & International) 62.5% (51.8%)
- Property 12.8% (19.2%)
- Corporate Bonds (UK & International)15.2% (18.1%)
- Gilts 9.1% (10.0%)
- Cash and cash alternatives 0.4% (0.9%)

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

The fund may, from time to time, include investments in other Aviva group companies. However, this will not have a direct impact on the asset mix backing your plan.

What does it mean?

Equities

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 such as commodities. 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.

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 gilts, which are loans to the UK government. 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.

Gilts

Gilts are 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. As they are issued by the UK government, they are generally seen as lower risk investments than bonds issued by companies (corporate bonds).

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.

3. How has the fund performed?

Global economic conditions are still challenging, but our With-Profit Fund continues to perform well over the long term.

	Returns achieved by the With-Profit Fund				
	2013	2014	2015	2016	2017
% before tax appropriate to pension plans	9.8	9.0	5.3	11.4	8.1

4. What affects the level of income I get?

The amount of regular income you get will depend on a number of factors, including:

- your age
- the amount you invest
- the options and anticipated bonus rate you choose
- how the fund has performed during the time you have invested with us
- policyholders’ mortality
- the effect of any guarantees
- our charges for administration, expenses, investment management and any financial adviser commission or charges.
- an annual deduction to cover the guarantees and capital costs that apply to your plan (currently this charge is zero)
- any tax we pay and future tax changes.

5. How income levels work

You made a choice from a range of starting incomes by choosing an anticipated bonus rate on your plan. Your income will depend on the bonuses we add to your plan throughout your retirement. In turn, the bonuses depend on the profits and losses of the With-Profit Fund.

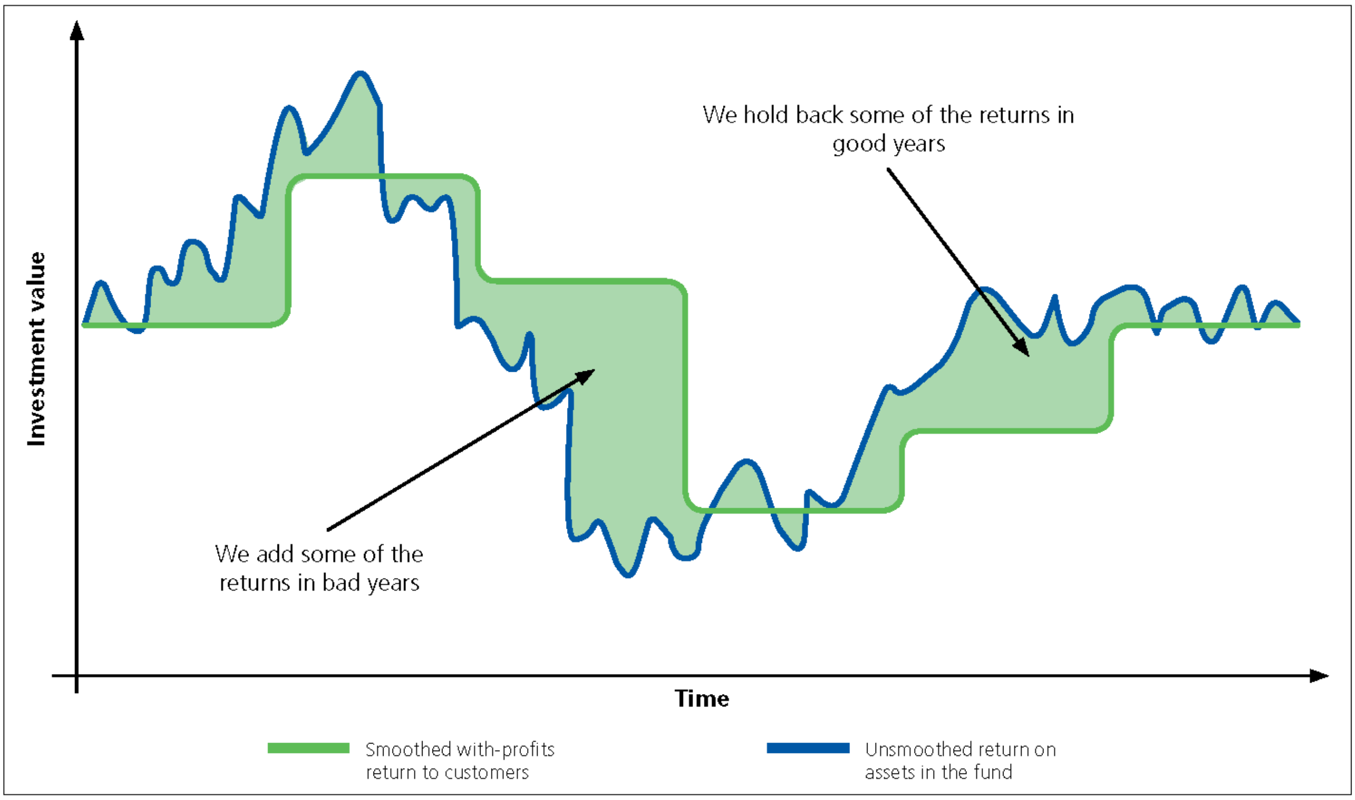
If bonuses are higher than your chosen anticipated bonus rate, your income will rise from its starting level. If bonuses are lower than your chosen anticipated bonus rate, your income will fall from its starting level. The higher the anticipated bonus rate you choose, the greater the risk you run of your income falling below the starting rate.

Whatever anticipated bonus rate you chose, we guarantee that your income will never fall below the initial level you would have received if you had chosen an anticipated bonus rate of 0%.

How smoothing works

Smoothing keeps back some of the gains earned in good investment years and uses them to help pay bonuses in poor investment years. Equally, losses made in poor investment years may also reduce gains in good investment years.

In a with-profits 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 (as shown by the green line in the diagram below). By contrast, the unsmoothed fund value changes each day as the value of the assets goes up and down (as shown by the blue line in the diagram).



This diagram is for illustration purposes only and shows a period of positive growth overall.

Things you need to be aware of

There may be times in poor market conditions when smoothing cannot fully protect your pension income. This can happen following a large or sustained fall in the stock markets or when investment returns are below the level we normally expect. In these circumstances, we won't add bonuses.

6. What are the bonuses?

We add the returns earned by the With-Profit Fund to your plan through bonuses. Essentially, the bonuses represent your share of the profits in the fund.

There are two standard types of bonus:

- regular bonus
- additional bonus.

We decide the bonuses by looking at:

- how the fund has performed in the current year
- any gains or losses we haven't shared out through smoothing from earlier years
- what we expect to earn in future years, and the impact of smoothing.

We have wide discretion in deciding bonuses and investment strategy and can't guarantee we will apply a bonus every year. However, when changing bonuses we do so in accordance with the guidelines outlined in the Principles and Practices of Financial Management, details of which can be found on page 2.

Regular bonus

- We confirm regular bonus rates at least once a year.
- Regular bonus rates may vary and are not guaranteed.
- One of the most important factors is how we think investment returns will fare in the long term. Depending on our expectations, we may adjust the regular bonus up or down.

Additional bonus

- We may pay an additional bonus. This depends on the profits earned by the fund to date.
- The additional bonus and the regular bonus will determine your income for the year.
- We review the additional bonus at least twice a year, but possibly more frequently.
- Your income throughout each plan year will be based on the additional bonus rate in force at the start of that plan year.
- Any additional bonus will only apply for that plan year.
- We can't guarantee the additional bonus rate. It may change at any time.

You can find the regular and additional bonus rates and your new level of income in your yearly statement.

7. What are the guarantees?

We guarantee that your income will never fall below a minimum amount. This is the income you could have bought at the start of the plan on an anticipated bonus rate of 0%.

If you choose to convert your With Profits Pension Annuity to a conventional annuity, your future income will be guaranteed. This could be more or less than your current with-profit annuity income and you may get less than your current guaranteed amount.

As these guarantees are valuable, we recommend you seek financial advice before converting to a conventional annuity in the future.

8. What else do I need to know?

With-Profits Committee

Our customers are at the heart of everything we do and Aviva is fully committed to treating customers, as a group, fairly at all times.

To support this, we have a With-Profits Committee which brings independent expertise and oversight, to ensure fairness is fully considered in our with-profits decision making.

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 factors which could have an impact on the 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 fund's expenses being higher than planned.

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

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

The inherited estate

Our With-Profit Fund is supported by an amount of money in excess of the amount we expect to pay out to existing policyholders. The excess money is known as the inherited estate and we use this to provide working capital to support smoothing and capital guarantees.

The size of the inherited estate is important as it gives us:

- the flexibility to invest in a more diverse range of assets
- a cushion of additional security to protect investors when investment returns are low
- a greater capacity for smoothing the returns you receive.

The estate also provides **solvency capital** for our with-profits business, and will normally absorb any profits or losses that arise from business risks (described above).

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What does it mean?

Solvency capital

Capital that allows Aviva to demonstrate that our With-Profit Fund is solvent and able to meet its obligations even if it were to suffer losses.

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 on the running of the fund are fair to everyone. This means we have to balance the interests of:

- policyholders whose investments start at different times
- policyholders remaining in the fund and those leaving the fund
- our shareholders.

We take all this into consideration in the way we run the fund. We will allocate at least 90% of distributed returns to policyholders with the remaining 10% to shareholders. The shareholders cost is met by the estate.

What does it mean?

Policyholder and shareholder interests

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

Financial strength

For smoothing to work at its best, it's important that a with-profit fund is backed by sound financial strength. Good financial strength also means that we can invest more of the fund in equities and property. Over the long term, this should increase the overall return for policyholders.

9. What if I decide to convert to a conventional annuity?

Unlike a With Profits Pension Annuity, a conventional annuity provides a fixed amount of income. If you decide to convert to a conventional annuity, your income will depend on the value of your investment and the conventional annuity rates at that time.

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