# Your guide to how we manage our unit linked business.

Our Unit linked Principles and Practices.

AVIVA

# Your guide to investing in our unit-linked investment and pensions funds

## This guide explains how our unit-linked funds work and how they are managed. You may find it useful if you have a unit-linked policy/plan with Aviva. You should read this if you've invested in any unit-linked insured funds which were issued by Aviva Life & Pensions UK Limited. This includes life funds (like those used in investment bonds), pension funds and insured funds on the Aviva Platform.

In this guide 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/plan 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/plan terms and conditions, the policy/plan terms and conditions will apply.

This guide covers unit-linked policies/plans provided by Aviva as well as those originally written by Friends Life, or some of the companies Aviva (and Friends Life) bought or merged with in the past.

However, it does not cover:

- 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 **aviva.co.uk/ppfm**

Investments in the Fund Supermarket on My Money.

- A small number of other policies/plans, 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/plan, you may:

- talk to your financial adviser,

or

- contact us directly quoting your policy/plan number. Please see your recent policy/plan statement for the current contact details. As part of our commitment to quality service, telephone calls may be recorded. Aviva can't provide you with financial advice.

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

If you don't have a financial adviser, you can find one at **unbiased.co.uk**. An adviser may charge you for any advice provided.

If you're unsure which funds you're invested in, please check your policy/plan documentation, speak to your financial adviser or call us, quoting your policy/plan number, which you'll find on your recent policy/plan statement.

The guide doesn't contain specific information about each unit-linked fund. For detailed information about all of our funds, please contact your financial adviser. If you don't have one please see the fund fact sheets available at **aviva.co.uk/retirement/fund-centre**

Definitions of the terms used in this guide can be found throughout the document.

## What is a unit-linked fund?

A unit-linked fund is a pool of assets, looked after by a fund manager, that many individuals invest in.

Investing in a unit-linked fund allows you to invest in a much larger spread of investments than you could buy yourself. Along with the other investors in the fund you are invested in, you will share in any returns or losses made on all of the assets in the fund.

A fund is divided into units of equal value. Each unit has an identical price. The unit price determines how many units you receive when you invest money in the fund and how much money you'll receive when you cash in your units.

The value of unit-linked funds is not guaranteed and can go down as well as up. You could get back less than you've paid in.

We offer both internally and externally managed funds.

### What does it mean?

#### External funds

An external fund is one where the underlying investments are not controlled by Aviva Life & Pensions UK Ltd. They may be managed by another fund management company or another company within the Aviva group (e.g. Aviva Investors UK Fund Services Ltd).

Being invested in an external fund means you won't necessarily qualify for compensation under the Financial Services Compensation Scheme (FSCS) should the external fund manager become insolvent or unable to meet its claims.

#### Internal funds

These are unit-linked funds where Aviva Life & Pensions UK Limited is responsible for the investment decisions. Please refer to the FSCS website for compensation details at: **fscs.org.uk/what-we-cover/**

You can invest in more than one fund. Funds have different mixes of assets and levels of risk. Some funds specialise in lower risk investments such as cash or UK government bonds, known as gilts. These funds tend to carry a lower level of risk but are likely to give you lower returns than riskier funds. Please note that funds investing in UK government bonds can still fall in value. Other funds specialise in riskier investments, like company shares (also known as equities), which have the potential to deliver higher returns over many years but could also result in higher fluctuations. This means you could see significant swings - if stock market returns go up sharply, so could the value of your investment, and if returns go down, the value of your investment can fall sharply as well.

The value of your investment is equal to the number of units you own in each fund multiplied by the unit price for that fund.

### 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.

#### Unit trust

A unit trust is a form of collective investment scheme in the form of a trust. A collective investment scheme pools the resources of a large number of investors to provide access to a range of investments. This allows individual investors to spread their risk wider, get the benefit of professional fund management and reduce their dealing costs. The value of the units can rise and fall.

#### Open Ended Investment Company (OEIC) or Société d'investissement à Capital Variable (SICAV)

An OEIC (or SICAV) is an open-ended collective investment scheme, similar to unit trusts. However, it's structured as a company instead of a trust and investors hold shares instead of units. The value of the shares will rise and fall. There's no limit to the number of shares it can issue. As more people invest, the fund gets bigger and more shares are created. If people withdraw money, on the other hand, the fund gets smaller and shares are cancelled. For this reason, it's called an 'open-ended fund'.

## Reinsured funds

Funds operated by other insurance providers are also included in the range of investment funds available. 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 investment fund operated by another insurance company will depend on the value of the assets held by that life insurance company. 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 the value of your investment falling and you losing part or all of the money you invested.

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

The value of your policy/plan 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 the "When are fund prices calculated?" section on page 6).

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 and buildings, is valued using periodic professionally certified valuations.
- Unit trusts, OEICs and SICAVs 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.
- 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.

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

**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 we've just described),
- deducting an amount to pay any anticipated future charges in respect of tax, 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/plan 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/plan terms and conditions. Alternatively you can contact us.

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.

## Smooth Managed Funds

The Smooth Managed Fund range unit price usually increases daily in line with a smooth growth rate. The Pension smooth growth rate (for pensions and life policies held in the ISA Portfolio) will be equal to the Bank of England base rate plus 5% but this total will be no less than 5% and no greater than 10%. For all other Smooth Managed Fund investments, the Life smooth growth rate applies - this will be equal to the Bank of England base rate plus 4% but will be no less than 4% and no greater than 9%.

## What's the difference between the Smoothed and Unsmoothed price?

The Unsmoothed price is simply the value of the assets in the fund, divided by the number of units. This price will move up and down each day with market movements.

The Smoothed price is the price you actually pay to buy and sell units in the Smooth Managed Fund. This price will usually increase every day in line with the Smooth Growth Rate and will not go up and down every day.

Fund Price Adjustments will be applied to the Smoothed Price when the difference between the Smoothed Price and the Unsmoothed Price is greater than 6.5% and the Fund Price Adjustment will reduce the difference to 1.5%. The Unsmoothed Price is the value of assets divided by the number of units in the Smooth Managed Funds. If the cash flows in or out of the Smooth Managed Funds exceed 10% of the total value of the fund over any 30 day period or 25% of the total value of the fund over any 365 day period, then the Smoothed Price will be set to the value of assets divided by the number of units in the fund on that day.

The fund is not guaranteed to grow in line with the smooth growth rate and may return more or less than this over any period.

The value may go down as well up and you may get back less than has been invested.

These rates may change in the future.

## When are fund prices calculated?

For most unit-linked funds, the unit prices are calculated each working day at a set time (known as the valuation point) and are publicly available the following day. The valuation point varies for different fund ranges, and the calculation of unit prices is based upon the asset value of each unit-linked fund.

If a unit-linked fund holds unit trusts, OEICs or SICAVs then these are valued using the latest available price quoted by the trust or scheme manager. Asset values denominated in foreign currencies are converted to sterling.

To check the prices please speak to your financial adviser. If you don't have one you can check the prices at
**aviva.co.uk/retirement/fund-centre.**

### At what price do I buy or sell units?

In most cases, when you buy or sell your units, you'll receive the next available price. The price at which the units are bought or sold could increase or decrease between the instruction being received and the transaction going through. In exceptional circumstances, Aviva will take appropriate action to safeguard investors' interests. This could include delaying the sale of your units.

These circumstances may include:

- unsuitable market conditions for buying or selling assets
- the interruption of a stock exchange or market, for example, the temporary closure of the US stock markets following the attack on the World Trade Centre on 11 September 2001.
- where trading would lead to unfair treatment between investors, for example, where the sale of units would allow you to use already known market data to your advantage
- natural disaster, explosion, flood, storm, fire, accident or failure of computer systems.

Aviva reserves the right to delay the selling of units by:

- more than six months if the units to be sold are invested in a property fund or a fund that's fully or partly invested in the form of land or buildings.
- one month in all other circumstances. After such a delay in the cancellation of units, the unit price received will be the price applicable at the end of the deferred period.

In some cases we may extend these periods. For more information about delays please see the 'Deferring Payments' section on page 8.

Please check your policy/plan terms and conditions or Key Features document for further details on how long we might delay the selling of units.

### 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, SICAVs. unit trusts or funds offered by another insurance company, or another company within the Aviva group (e.g. Aviva Investors UK Fund Services UK Fund Services Limited). 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 an 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 page 7.

### How can I check the value of my investment?

If you want to know the current value of your investment, please log in to your online account. If you don't have an online account or are unable to log in, speak to your adviser or, if you don't have one you can call us using the phone number on your recent policy/plan statement.

For most policies/plans, we'll send you a statement at least once a year, that shows how much your investment is worth. If you don't receive a regular statement, you can request one.

The statement shows the number of units you own in each fund and the total value of your investment at the date of the statement. Statements for more recent policies/plans will also show the unit price for these funds.

### How can I find more information about individual funds?

More information, including prices and factsheets, is available from your financial adviser. If you don't have one you can find out more information on our websites:

- For My Money funds please follow the Investment Selection link once you are logged on to your online account.
- For our other funds please go to **aviva.co.uk/retirement/fund-centre**. 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/plan you have. If you need information about the funds available to you, please contact your financial adviser. If you don't have one please contact us.

## How do you allow for expenses and charges?

In managing your policy/plan we incur certain expenses and charges in running the funds. Expenses are taken directly from the funds and charges are deducted from your policy/plan. The overall effect of expenses and charges is a reduction in the return on your investment. For details of other charges please see your policy/plan Terms and Conditions.

Examples of expenses 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,
- charges in respect of tax.

These expenses reduce the price of units.

Examples of charges include:

- setting up and administering the policy/plan,
- paying claims (where relevant),
- 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/plans 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/plan, usually monthly, or as a combination of the two.

With certain funds you'll have to pay an extra charge; this reflects the extra cost of managing these funds. The charge you'll pay will vary depending on the fund you choose. For bond customers: for funds with a guarantee, the extra charge will only apply up to the guarantee point.

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

The unit price may also be reduced by direct expenses such as audit fees, and registration fees. These expenses are usually referred to as the Fund Manager Expense Charge (FMEC) or Additional Fund Expenses.

Your financial adviser will tell you if your policy/plan is affected by these charges. If you don't have one you can find this in your policy/plan documentation.

For some policies/plans, there's also a limited administration charge, which is used to cover the higher costs of administering your policy/plan in the early years. This may also be taken by cashing in some of your units. If this applies to you it'll be in your Terms and Conditions.

If you choose to surrender your policy/plan early, you may have to pay an early exit penalty. These penalties usually reduce the longer your policy/plan has been invested. Please contact your financial adviser or us to find out if early exit penalties apply to your policy or plan.

Any other deductions we make will be disclosed in your original policy/plan documentation. For example, we may deduct a charge to cover the cost of providing any additional benefits in your policy/plan, such as death benefit or a guarantee of some kind.

## How do you manage my investment fairly?

Our senior management team is responsible for the operation of your unit-linked policy/plan. This includes the supervision and management of your chosen funds to ensure they are managed consistently in accordance with fund guidelines, policy/plan conditions, fund objectives and commitments made to you, and that where any discretion is applied it's 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.

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:

**Changes to Charges**

Your policy/plan terms and conditions may allow us to change our charges. You will be notified of any material change in charges.

**Taxation**

See section headed 'How do you allow for charges in respect of tax in the unit price?' on page 7.

**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.

**Deferring Payments**

In very rare situations we may delay carrying out your request to switch units or make a payment from your policy/plan. The delay will generally be up to one month (or up to six months or more 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. For further details on how long we might delay the selling of units, please check with your financial adviser. If you don't have one you can check this in your policy/plan terms and conditions.

**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 and in line with your policy/plan terms and conditions. If necessary, we will ask you to tell us which alternative fund you would like to invest in.

## Does Aviva own units in these funds?

We hold a small number of units in each fund to help manage the operation of the funds. We have set upper and lower limits on the number of units we may own and will only increase or decrease the number of units in each fund when these limits have been exceeded.

The total number of units that we hold in a fund at any given time may include a deduction to take into account the anticipated future cancellation of units to pay for our charges.

We earn the same returns on money invested in each fund as you do.

## 'How do you allow for charges in respect of tax in the unit price?'

### Pensions

In the UK, pension funds can grow free of direct UK tax, so charges in respect of tax are usually not applied. However, funds which invest in overseas assets may be subject to some taxes charged by the overseas country. We do allow for any charges in respect of tax that we have to pay that can't be claimed back.

### ISAs

Life products held within an ISA are not usually subject to UK tax, and we make no allowance for UK tax within the value of the fund's assets. Funds which invest in overseas assets may be subject to some charges in respect of tax which cannot be reclaimed.

### Life Products

For the vast majority of unit-linked investment funds, the value of the fund will be adjusted to reflect the tax we expect to pay on investment returns. The charges in respect of tax in each fund are intended to be a fair approximation of the tax we'll pay on investment returns. We have to make certain assumptions when we calculate charges in respect of tax at fund level. We make these assumptions as fair as possible to all our investors and review them at least annually.

As a starting point, all investment growth (adjusted for inflation where appropriate) and investment income is charged at the relevant tax rate, which is currently 20% on most UK asset classes. An exception is the dividend income from company shares, on which we usually do not make a charge in respect of tax.

If an asset is sold for less than the original purchase price, the loss can be used to reduce the charges in respect of tax that we'll pay. We'll give each fund some credit for losses or expected losses, which will reduce the charge in respect of tax allowed for in the unit price.

In some cases, the amount of tax that we expect to pay isn't due immediately. When we calculate the charge (or credit) in respect of tax allocated to each fund, we allow for any expected time delay by reducing the tax rate.

For example, if we expect to pay a charge in respect of tax in three years' time, we can invest a smaller amount now with the expectation that it'll grow to meet the liability when it becomes due. In this way, the charge to the fund will be less than the actual expected charge in respect of tax.

Funds which invest in overseas assets may be subject to some taxes charged by the overseas country in addition to UK charges. Funds may receive investment returns with tax credits, or after tax deductions, which can't be reclaimed or relieved against UK tax.

## Will I have to pay additional tax?

### Pensions

At the point you take pension benefits, you can normally take up to 25% of your pension fund free of tax. However, any income or withdrawals taken from the remainder of your pension fund will be taxable in the same way as earnings. Taxable pension income is taxed at the income tax rate that applies to you.

There are many special circumstances around the taxation of pensions and you should consult your financial adviser for further details. If you don't have a financial adviser, one can be found at **unbiased.co.uk**.

### ISAs

ISAs are free from UK Capital Gains and Income Tax. No UK tax is charged on withdrawals.

Where either the life insurance policy held within the ISA, the ISA subscription relating to that policy, or the ISA itself, is determined to be either void or invalid, the life insurance policy must be cancelled. It will then be taxed as a life product (see below) and a chargeable gain may arise on the policy.

### Life products

You won't normally need to pay additional income tax when you cash in your policy/plan if you're a basic rate taxpayer or don't pay tax at all.

If you're a higher or additional rate taxpayer or become one due to the chargeable gain on your policy/plan, you'll usually have to pay some additional income tax on any chargeable event gain. A chargeable event gain may arise if:

- you fully or partially cash in your policy/plan;
- you assign your policy/plan to someone else for consideration;
- your policy/plan matures;
- you die.

The chargeable gain could also affect your entitlement to any income-related allowances or to any means-tested tax credits and benefits for that tax year, for example, Child Benefit. Please talk to your adviser about this if you'd like further information. If you don't have a financial adviser, one can be found at **unbiased.co.uk**.

## What does it mean?

### Chargeable gain

A chargeable gain can occur when certain events happen on a life policy/plan, for example, partially or fully cashing in your policy/plan. A chargeable gain relating to a life policy/plan is subject to income tax. Life policies/plans are exempt from Capital Gains Tax unless the policy/plan has been bought from someone else.

Tax treatment is dependent on your individual circumstances and is subject to change in future.

### Inheritance Tax

A cash payment from any of the policies named above may form part of your estate for inheritance tax purposes. You should consult your financial adviser for details of whether your policy, or any policy payment, would be subject to inheritance tax. If you don't have a financial adviser, one can be found at **unbiased.co.uk**.

Your tax treatment depends on your individual circumstances and may be subject to change in future.

## How does Aviva 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. In line with standard industry practice we will generally look to correct significant transactions for which the impact on the unit price was 0.5% or more. If the impact means that you have lost out by more than £10 and the policy/plan is active (i.e not surrendered or lapsed), we will put you back (as closely as we can) to the position you would have been in had the error not occurred. If you have benefited from a pricing error we may seek to recover this.

## Need this in a different format?

Please get in touch if you'd prefer this document (**IN13419**) in large print, braille, audio or in a different colour.

## How to contact us

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