

# Principles and Practices of Financial Management

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



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**This guide explains how our unit-linked funds work and how we manage them at the current time. We may change our approach in the future but if we do, we'll update you if there are any changes that significantly affect the way we manage your policy.**

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.

We've answered some of the questions you might ask. If you still feel unclear or unsure about anything when you've read this guide, you should talk to your financial adviser or contact us directly. You can find our full contact details at the back of this document.

If you're unsure which funds you're invested in, please check your policy documentation or call us on [0800 068 6800](tel:08000686800), quoting your policy number, which you'll find on your policy documentation.

The guide doesn't contain specific information about each unit-linked fund. For detailed information about all of our funds, please see the fund fact sheets available at [aviva.co.uk/retirement/fund-centre](https://aviva.co.uk/retirement/fund-centre)

Because we understand that some of the terminology used can be complex, we've included useful explanations throughout the document, to help you understand.

If there's any inconsistency between this document and your policy documentation, the terms and conditions set out in your policy documentation will apply.

## What's 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 and, along with the other investors in your fund, you share in any returns or losses made on all of the assets within 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 can go down as well as up and may be worth less than the amount invested.

You can also 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 carry a lower level of risk but are likely to give you lower returns than riskier funds. Other funds specialise in riskier investments, like company shares (also known as equities), that 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 will 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.

### Cash alternatives

Cash alternatives are money market securities, which are interest-generating investments, issued by governments, banks and other major institutions.

# How does Aviva work out the value of my investment?

## How do you value the fund?

For most funds the price for each unit is simply the value of the fund divided by the number of units in the fund.

A fund is expanding when more units are being purchased by investors than are being sold. When this happens we have to create additional units in the fund and buy more assets. The value of the fund will be based on the lowest value at which these assets can be bought, plus an allowance for any costs or taxes associated with buying them.

A fund is contracting when more units are being sold by investors than are being bought. The value of the fund will be based on the highest value at which these assets can be sold, less an allowance for any costs or taxes associated with selling them.

In determining whether a fund is expanding or contracting we consider the trend over the last few months and the expected trend for the next few months. This is normally reviewed for all funds every month.

We do this to make sure that we price the units in a way that treats all our investors fairly, whether they are buying units, selling units, or remaining invested in the fund.

The cost of buying assets is usually higher than the value received for selling assets.

### Smooth Managed Funds

For the Smooth Managed Funds the unit price usually increases daily in line with a Smooth Growth Rate – this is the smoothed price. The Pension Smooth Growth Rate (for pensions) will be equal to the Bank of England base rate plus 5% but will be no less than 5% and no greater than 10%. For all other 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%. 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 Fund. If cash flows in or out of the Smooth Managed Fund 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 on that day.

To calculate the value of the fund, we add up the value of each of the assets in the fund. For example, if an asset is listed on a stock exchange, we use the quoted price to value it. For land and buildings, value is based on independent periodic valuations.

Any income due is added to the value of the assets and any anticipated costs and taxes are deducted to get the fund value.

The fund manager will buy and sell assets in the fund to achieve the fund's investment performance objectives. The fund meets all costs associated with these transactions, such as any costs of buying and selling assets, commissions, and stamp duty. These costs reduce the value of the fund.

As part of the investment management activities we may lend some assets of the fund to selected financial institutions to generate additional fee income for the fund. All revenue derived from this process is passed directly to the fund less any associated costs incurred. In certain circumstances, for example, if the institution encountered financial difficulties and was unable to return lent assets, the fund could suffer a loss. However, we have a number of controls in place, such as always obtaining security from each borrower as well as monitoring their credit ratings, in order to reduce the risk to the fund.

## What's the price of each unit?

The price for each unit is simply the value of the fund divided by the number of units in the fund.

Unit prices can be affected by the way charges are applied to your particular policy. For some policies, we'll quote one price for each of your chosen funds. This is the price at which you can buy or sell units in that fund. For other policies, we'll quote a price at which you can buy units (the buying price, also known as the offer price), and a price at which you can sell units (the selling price, also known as the bid price). The difference between these prices is a charge for expenses. You should check your policy documents to see which applies to you.

Prices are normally rounded by no more than 0.1 pence.

## How many units will I get?

When you invest, the number of units you get equals the amount used to purchase units, divided by the unit price for your chosen fund.

## When are 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.

You can check the prices at [aviva.co.uk/retirement/fund-centre](https://www.aviva.co.uk/retirement/fund-centre)

### What does it mean?

#### Asset value

The asset value of a fund is the total assets minus the total liabilities, such as costs, tax and fees. It's also known as the net asset value. The asset value of the fund is divided by the number of units to give the price.

## 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

- 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
- acts of god, explosion, flood, tempest, fire, accident or failure of computer systems.

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

- 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.

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

If you want to know the current value of your investment, please call us on 0800 068 6800 with your policy number to hand. You can find this number on your policy documentation.

For most policies, we'll send you a statement once a year that shows how much your investment is worth. If you don't receive a yearly 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 will also show the unit price for these funds.

# What charges are taken from my investment?

**Over the years, we've sold a wide range of policies. The way we make charges can differ between these policies. To see how the charges are taken for your particular policy, you should check your policy documentation.**

## What charges affect the number of units I own?

For some policies, we take charges from your payment(s), so the amount used to purchase units in your chosen funds may be lower than the amount you've paid. The charges you pay are outlined in your policy documentation.

We take an annual management charge from each fund to cover the costs of managing and administering it. The charge is a percentage of your fund value and, for some policies, we take it by cashing in some of your units once a month. If your fund invests in another investment vehicle, such as a unit trust or an open-ended investment company, the annual management charge we quote includes all investment vehicle charges.

For some policies, there's also a limited administration charge, which is used to cover the higher costs of administering your policy 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 early, you may have to pay an early exit penalty. These penalties usually reduce the longer your policy has been invested.

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

## How do charges and expenses affect the unit price?

We've described how some charges are taken by cancelling units. For policies where the charge is taken directly from the fund, this charge is taken into account when we calculate the unit price. It's taken as a percentage of the fund value and is deducted each time we calculate the unit price. Again, check your policy documents to see if this applies to you.

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). Your policy documentation will tell you if your policy is affected by these charges.

For some of our funds, the fund manager will receive an additional performance fee if they meet clearly defined targets. Again, if a performance fee applies to your policy, this will be shown in your policy documentation.

## What does it mean?

### 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 will rise and fall.

### Open-ended investment company (OEIC)

An OEIC 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'.

## How might these charges change?

We may increase our charges if the cost of managing the fund increases. If we do this we'll tell you and let you know what your options are. Reasons for increasing the charge may include changes in taxation, regulation, legislation and the cost of external fund management.

The Fund Manager Expense Charge isn't fixed and will vary depending on the actual expenses incurred.

## How will tax affect my investment?

We give details of how tax can affect your investment below. This information is based on our understanding of the current legislation and HM Revenue & Customs practice. Tax laws may change in the future.

Your tax situation will depend on your personal circumstances. You should speak to your financial adviser for more information.

## What allowance for tax is made within the unit price?

### Pensions

As the investment returns on unit-linked pension funds aren't usually subject to UK tax, we make no allowance for UK tax within the value of the fund's assets. Although funds which invest in overseas assets may be subject to some taxes charged by the overseas country.

### Life products

Life Products include investment bonds.

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 allowance for tax in each fund is intended to be a fair approximation of the tax we'll pay on investment returns. We have to make certain assumptions when we calculate the tax payable 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 are charged at the relevant tax rate, which is currently 20% on most UK asset classes. An exception is the dividend income from company shares, which are mostly not subject to tax in the unit-linked funds.

If an asset is sold for less than the original purchase price, the loss can be used to reduce the tax that we'll pay. We'll give each fund some credit for losses or expected losses, which will reduce the amount 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 tax charge (or credit) allocated to each fund, we allow for any expected time delay by reducing the tax rate.

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

### Life products

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

If you're a higher rate taxpayer or become one due to the chargeable gain on your policy, 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;
- you assign your policy to someone else for consideration;
- your policy 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.

## What does it mean?

### Chargeable gain

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

# Will my money be administered fairly?

Our senior management team is responsible for the operation of your unit-linked policy. This includes the supervision and management of your chosen funds to ensure they are managed consistently in accordance with fund guidelines, policy conditions 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.

## 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.

## What else might impact my investment?

We may decide at any time to close a fund or to stop accepting new money into a fund or money switched in from other funds. We may also decide to merge funds that have similar investment objectives.

We'll only make major changes to the fund if we believe these to be in the best interests of the majority of investors affected. Reasons for doing so may include, for example, a fund becoming too small to be managed efficiently or, where there are funds with similar objectives, a merger to improve efficiency and save costs. If we do decide to make any major changes, we'll write to you, telling you of both our decision and your options.

## What happens if Aviva makes an error?

We make every effort to calculate prices accurately. We won't publish any prices until they have been thoroughly checked. If an error does occur, we'll do all we can to correct it as soon as is practical and will immediately investigate the financial impact. In most cases, we'll compensate the investors and the fund if either has suffered a significant loss. We generally consider a significant loss to be 0.5% or more of the unit price.

# Is my money protected?

## How's my money protected?

Qualified advisers will recommend you buy products suitable for your needs. You have legal rights to compensation if at any time it's decided that you've bought a product that wasn't suitable for your needs at that time.

The Financial Services Compensation Scheme (FSCS) provides protection to consumers by allowing them to claim compensation in the event that an authorised financial services firm (such as Aviva Life & Pensions UK Limited) is unable to meet claims made against it.

Whether you qualify for any compensation under the FSCS will depend on the type of investments you hold. This means that if your investments through Aviva Life & Pensions UK Limited are held in external funds, then you wouldn't be eligible to make a claim for compensation under the FSCS in the limited circumstances where the external provider is unable to meet its obligations. Our fund factsheets show whether a fund is an external fund and further details can be found in 'Your Guide to Fund Factsheets'. If you're not sure about the type of funds you are invested in you can call us on 0800 068 6800 or speak to your financial adviser.

## What does it mean?

### External funds

An external fund is one where the underlying investments are not controlled by Aviva Life and 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 qualify for compensation under the 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.

For further information on the FSCS:  
Phone: 0800 678 1100 or 0207 741 419  
Website: [fscs.org.uk](https://www.fscs.org.uk)

# How do I make a complaint?

If you ever need to complain, you can contact us at:

Aviva  
Customer Relations  
PO Box 3182  
NORWICH  
NR1 3XE

Telephone: 0800 068 6800

Monday to Friday 8.00am to 6.00pm.

Calls to and from Aviva may be monitored and/or recorded.

Email: [contactus@aviva.com](mailto:contactus@aviva.com)

As soon as we receive your complaint, we'll get in touch to let you know we're dealing with it. If you're happy to provide us with a contact number, we can do this by phone and it'll help us keep you informed of how we're getting on.

If your complaint is about the service you've received then we'll try to resolve the issue within five working days.

For more complex issues or for complaints about the sale of your policy, it's likely we'll need longer to investigate. If this is the case, we'll get in touch to let you know when we expect to be able to give you an answer.

In all cases, we'll provide you with a direct contact number of the person dealing with your complaint.

In the unlikely event we've been unable to resolve your complaint within eight weeks, we'll contact you again with a further update. At this point, we'll explain your rights to take your case to the Financial Ombudsman Service.

When contacting us about a complaint, please be prepared to answer personal identification questions so that we can verify your identity.

If you're not satisfied with our response, you may be able to take your complaint to the Financial Ombudsman Service.

The Financial Ombudsman Service can look at most complaints and is free to use. You don't have to accept their decision and will still have the right to take legal action. Their contact details are:

The Financial Ombudsman Service  
Exchange Tower  
London  
E14 9SR

Telephone: 0800 023 4567

Email: [complaint.info@financial-ombudsman.org.uk](mailto:complaint.info@financial-ombudsman.org.uk)

Website: [financial-ombudsman.org.uk](https://www.financial-ombudsman.org.uk)

Financial Ombudsman Service will only consider your complaint after you've given Aviva the opportunity to resolve it first.

## How can I contact Aviva?

Remember your financial adviser will normally be your first point of contact. They'll have provided you with information that contains their contact details.

If you have any questions at any time, for both pensions and investments, you can phone, email or write to us.



0800 068 6800

Monday to Friday 8.00am to 6.00pm.

Calls to and from Aviva may be monitored and/or recorded.



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