Changes in the use of BlackRock Aquila funds

We are changing the way some of our funds access BlackRock's investment management expertise

For some financial products, such as a group personal pension, we use funds which are managed by external fund managers, such as BlackRock. We create unit-linked funds which are Aviva or Friends Life funds that invest, or hold units, in a BlackRock fund. For example, both Aviva's 'Aviva Pension BlackRock Aquila UK Equity Index Tracker Fund' and Friends Life's 'FL BlackRock UK Equity Index (Aquila C) Fund' invest in the BlackRock Aquila Connect UK Equity Fund. Working with BlackRock we have decided to change the structure of some of these funds.

- The assets Aviva and Friends Life hold within BlackRock Aquila funds will be moved into an **authorised contractual scheme** (ACS) administered by Aviva Investors.
- The assets will now mainly be held in a series of funds of the ACS – **tax transparent funds** (TTFs).
- Fund management will be delegated to BlackRock.

Why are we doing this?

Over recent years we have been reviewing the way we operate with an emphasis on reducing our financial risk exposure.

Assets within the BlackRock funds are currently owned by BlackRock Life Limited on behalf of customers.

- This means that if the external company runs into financial difficulty, the assets they hold could be negatively affected. This creates a risk both to us as a company and, in turn, the customer.
- Moving to this new structure means that the funds themselves own the assets which eliminates this risk.

What will not change

As far as customers are concerned there will be no changes to:

- Charges and costs
- Fund objectives
- Fund risk profile
- Fund manager
- The underlying assets held by the funds.

AVIVA

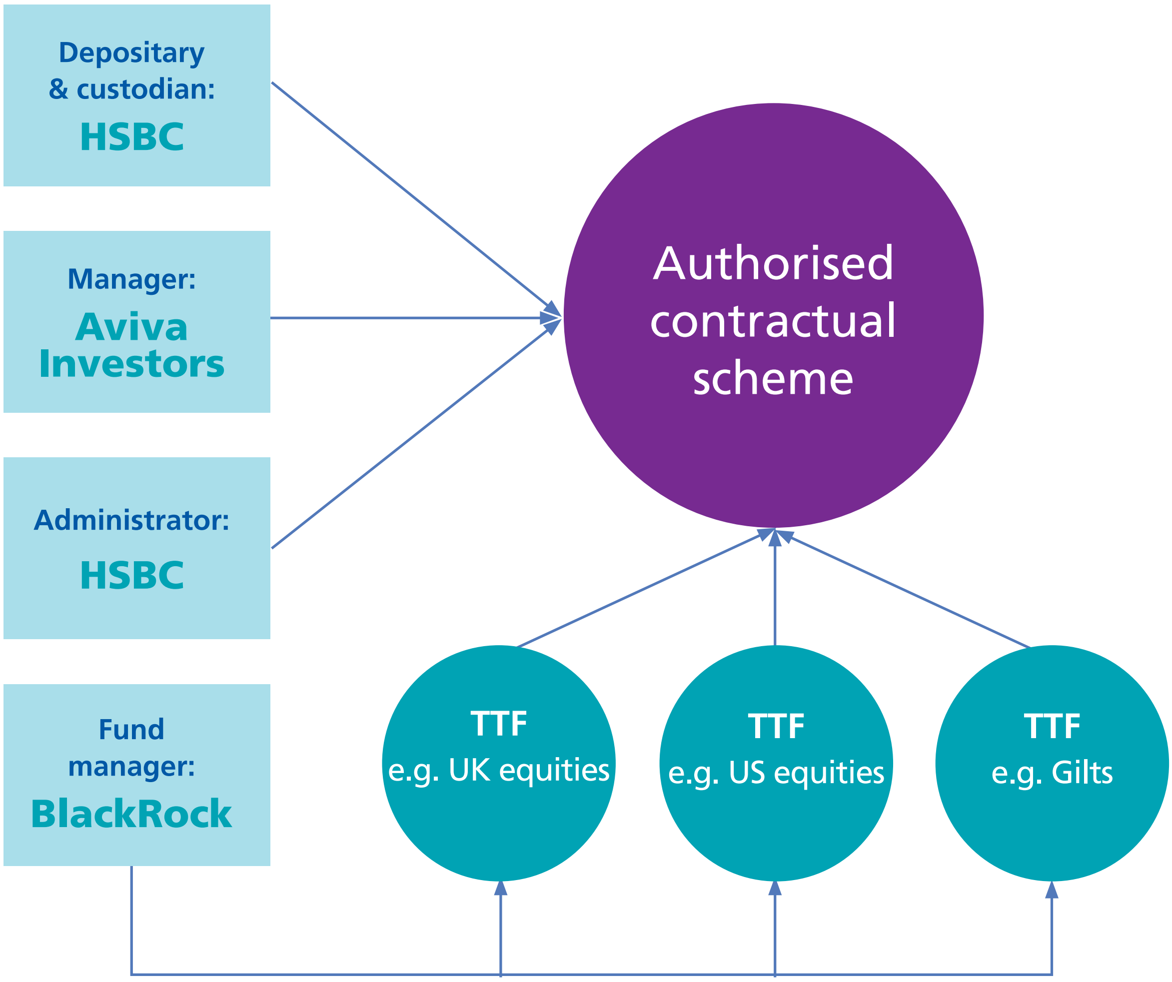
FriendsLife

What is an authorised contractual scheme (ACS)?

An ACS is very similar to an open-ended investment company, or OEIC, and has similar regulatory protection. It is an umbrella scheme under which there are a number of funds, in this case TTFs, which will be explained on the following page.

There are three independent institutions which are involved in the operation of the scheme:

- **Aviva Investors** – manager (or operator) of the ACS
- **HSBC** – administrator, depositary and custodian. HSBC as depositary is responsible for the safe keeping of the assets held by the fund
- **BlackRock** – fund manager



About tax transparent funds (TTFs)

TTFs – What are they?

Legally, TTFs are funds of an ACS and operate in a very similar manner to the funds within an OEIC umbrella.

The funds are non-UCITS* retail schemes (NURS). NURS funds are investment funds that do not comply with all the conditions to which UCITS are subject. They, therefore, do not benefit from the UCITS 'passporting' rules that allow funds to be easily marketed across the EU. They are, however, subject to the FCA's investor protection requirements and can be marketed within the UK to retail investors. NURS funds can invest in a wider range of eligible investments and there are less restricted concentration rules.

TTFs differ from OEIC funds in that there is a 'look through' or 'transparency', such that the underlying assets of the funds are owned by the beneficial owner (the unitholder) rather than the unitholder simply owning units in a fund.

*UCITS schemes are funds which comply with certain rules and investment limits which allow them to be freely marketed throughout the EU

Why is that good?

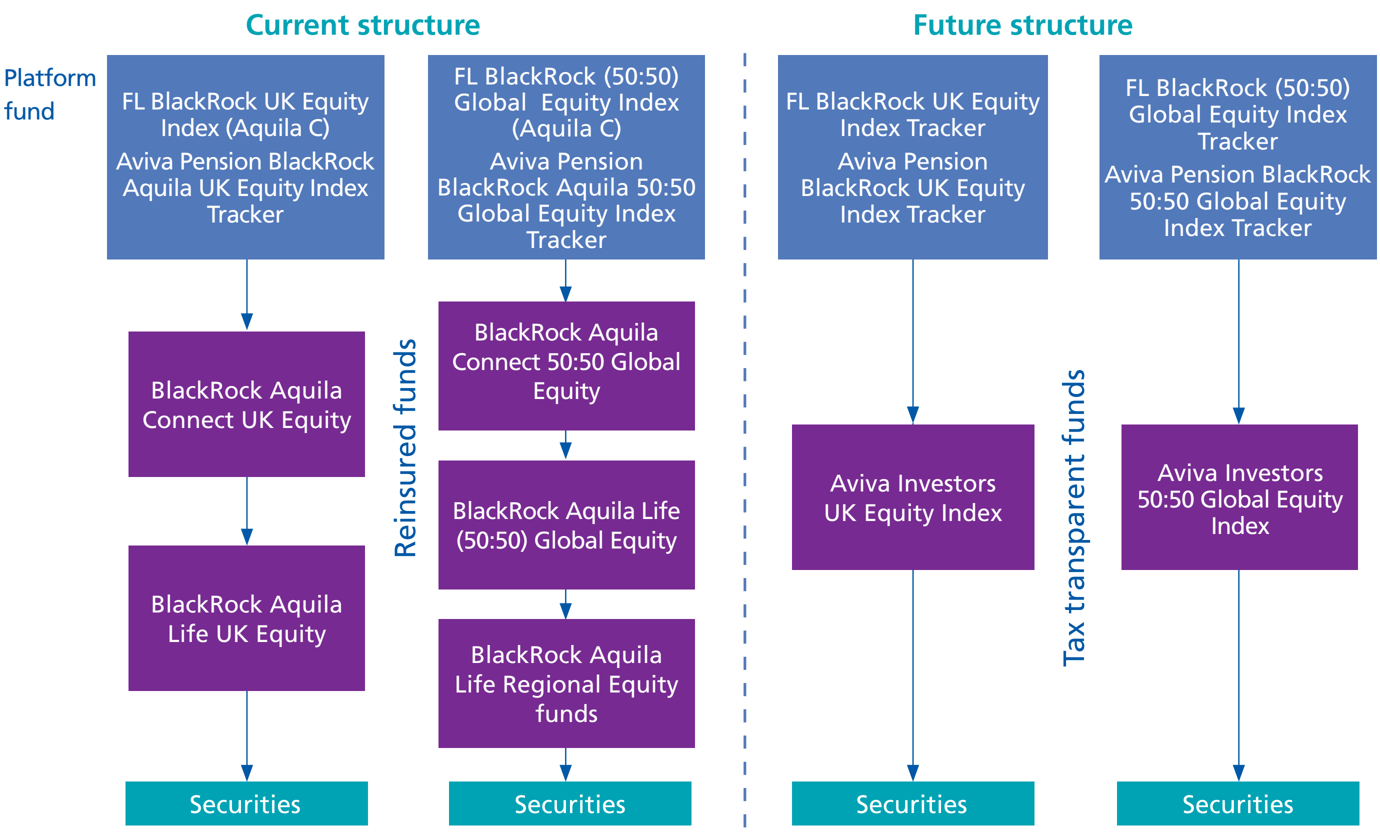
Previously the assets of life funds and pension funds had to be kept separate even though the fund objectives, and the assets in which they invested, were the same, resulting in costly and time consuming duplication. TTFs, however, allow different types of investors to invest in the same fund even though they may have different tax considerations. That's where the tax transparency part of their name comes in – we are able to see through to the fund's underlying assets for tax purposes and, crucially, identify the beneficial owner so both life and pension funds can invest in the one asset pool in the form of a TTF.

TTFs will result in funds which are much more efficient and less costly to run than funds which do not allow assets from life and pension products to be pooled.

Current and future structures of funds investing in BlackRock Aquila funds

Importantly the move to the new scheme is a structural and administrative change. It is not a change that affects customers' charges or costs, how their funds are managed and who manages them.

Here's how it currently works compared to how it will work in the future.



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