



Guide to Unit Linked Funds

Aims of this guide

The guide:

- answers some of the questions you might have about unit linked funds;
- explains how unit linked funds work and how we manage them;
- describes the use of discretion in the management of unit linked funds and what we do to make sure customers are treated fairly.

This guide is applicable to all ReAssure policyholders

When to read the guide

You may wish to read this guide:

- after you have read your latest yearly policy statement;
- if you are considering switching the fund you are invested in.

For more information on your unit linked funds please refer to your policy documents (including the terms & conditions) or visit www.reassure.co.uk.

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1 Background

This information is relevant to you if you have a unit linked life or pension policy with ReAssure. The information presented here provides an overview of how we run our unit-linked funds and complements the details in your policy documentation.

Note: You will be able to see if your policy is unit-linked by looking for references to units in your policy document and schedule or from your annual statement. If you hold units in a With-Profits fund you should refer to the Principles and Practice of Financial Management (PPFM) for information regarding the management of your units.

2 What is a unit linked fund?

A unit linked fund is a collection of assets that many individuals can invest in. Investing in such a fund allows for a much larger range of investments than could normally be achieved by one individual. The total value of these assets is split up into units of equal price. This 'unit price' determines how many units you receive when you invest your money in the fund and how much money you will receive when you cash in your units.

Different funds will offer different investment characteristics. Some will invest in only one type of asset such as property, whereas others will invest in a range of different investments such as shares (equities), fixed interest securities (bonds), property, cash etc. Some funds also invest in specific collective investment schemes such as unit trusts or open ended investment companies (OEICs).

Different funds have different levels of risk. Some funds specialise in safer investments such as cash and government bonds. These funds have a lower level of risk but are likely to give a lower financial return, in the long run, than more risky funds. Riskier funds will contain investments such as equities, which have the potential to produce better financial returns in the long run, but may go down in the shorter term.

The value of the units in a fund can go down as well as up and is not guaranteed (other than for a small number of funds which if applicable to you will be documented in your policy and fund literature).

Investment income, for example dividends on equities or rental income on property, will be added to the value of the fund. The value of the fund can also increase through capital appreciation of the assets.

Expenses chargeable to a fund, for example expenses incurred in buying and selling assets, will be deducted from the value of the fund. Certain other charges will also be deducted from the value of the fund including annual management charges and, where relevant, charges in relation to tax.

Dependent on the type of policy you have there may be restrictions on the funds in which you can invest and/or how many your plan can be linked to. The funds available to you are shown in the information given to when you took out your policy, although these may have changed following the withdrawal or merger of a fund, or through the introduction of new funds in which case we would have notified you in writing.

3 How does a unit linked policy work?

Premiums & Loyalty Bonuses

With a unit linked policy a percentage of each premium you pay buys units of the appropriate type for your policy, in the fund (or funds) in which you are investing. These units are 'allocated' to your policy.

Some policies may also have loyalty bonus units allocated on certain dates.

Details on premiums allocated and any loyalty bonus units will be stated in your policy documents.

Unit Cancellations

Units allocated to your policy may be cancelled to pay regular charges and the cost of providing life assurance and health insurance benefits. Please refer to your policy documents to see what charges, if any, are made by cancelling units.

Claims

The benefits that are payable under your policy are shown in your policy documents.

The benefit may be determined by reference to the value of your units at the bid price (see section 6). However, if the policy has a sum assured, for example for a life or critical illness cover then the greater of the sum assured or the value of units would be paid.

An exit charge may also be deducted from the value of your units if you terminate your plan early by surrender, transfer out or early retirement. Please refer to your policy documents to see if this charge applies to your policy.

Fund Switches

Many of our policies allow you to choose from one or more funds in which to invest and give you the option of switching between different funds. We will calculate the value of units to be switched using the bid price of the fund you are switching out of and allocate to you an equivalent value of units in the receiving fund. A switching charge may be deducted from the value of your units (please refer to your policy documents to see if and when this charge applies).

The bid prices we use for the majority of policies are those on the day after we accept your written request to switch based on the asset valuation at close of business on the day of your instruction. Some ex-Alico policies use the bid price two days after we accept your written request to switch. You will be made aware of the timescales when you request a switch.

4 How are the funds structured and managed?

Fund structure

The **Policyholder Fund unit series** you are invested in will be detailed in your latest yearly policy statement. ReAssure has made a number of life company acquisitions over recent years and, as a result, we now have over 3,000 individual Policyholder Fund unit series.

Base Fund Structure

The majority of unit-linked assets are held within a set of **Base Funds** which hold assets of a similar type, for example the Property Base Fund. Each of the Base Funds has its own specific investment mandate. Generally Base Funds are either exclusively Life or Pension, although there are a small number of Base Funds that are divided into both Life and Pension units.

Most Policyholder Fund unit series are grouped into **Profile Funds** which invest in the Base Funds in an appropriate manner, depending on the objective of each Profile Fund.

Structure of other unit-linked funds

The only exceptions to the Base Fund Structure are a number of unit series that are directly linked to the performance of an external fund or have clearly defined objectives or guarantees.

The majority of these are detailed as follows:

- The “Third Party funds” invest in a solitary Unit Trust or OEIC (Open Ended Investment Company) managed by a third party investment management company.
- The “Third Party Multi-Manager Fund of Funds” invest in a selection of Unit Trusts or OEICS managed by third party investment management companies.
- The “Peak Performance Funds” hold a combination of UK equity tracker and fixed interest assets in appropriate proportions to ensure that the price at the fixed maturity date of the fund is equal to the highest historic price of the fund.

Dependent on the type of policy you have there may be restrictions on the funds in which you can invest and/or how many your plan can be linked to.

Management of the funds

We use leading investment management companies to manage our investments in the unit linked Base Funds on a day to day basis. These currently include:

- **Aberdeen Standard** (www.aberdeenstandard.com)
- **Alliance Bernstein** (www.alliancebernstein.com)
- **Goldman Sachs Asset Management** (www.gsam.com)
- **HSBC Global Asset Management** (www.assetmanagement.hsbc.co.uk)

We continually review the appropriateness of our investment managers for you and we'll update our fund factsheets if we make any changes. You can find the fund factsheets on our website, or you can call us and we can send them to you.

We closely oversee their management of our funds through the Policyholder Investment Committee, which is responsible for the operational management of our funds, and the Board Investment Committee, which is a sub-committee of the Board of Directors. These committees determine investment strategy, taking into account advice from each of the fund managers, set benchmarks that are appropriate to each fund and also make sure the funds keep to these benchmarks.

The Board of Directors has overall responsibility for the operation of ReAssure (including the choice of Investment managers). Within ReAssure, the Fairness Committee, an advisory committee to the Board of Directors, reviews discretion applied in the administration of policies (see section 9).

We regularly review our investment philosophy, taking into account current market conditions and the economic outlook. At the moment we believe that in large and efficient markets (such as UK, Europe and North America) it's in our customers' best interests to have investments that broadly reflect the market, rather than trying to beat the market by actively choosing individual company stocks. This means that in these markets we'll invest with the aim of tracking the market performance.

There are still some sectors where we believe active stock selection is in the customer's best interests and we continue to use this strategy where we think it's the right thing to do. These include:

- Smaller or less efficient markets
- Specialist asset classes where it's not possible to invest across the market – such as investments in property

ReAssure may enter a stock lending program for funds, which in return brings additional income to the funds. A portion of the revenue derived from this process is passed directly to the funds. Any risks associated with stock lending are retained by the company and therefore no risk is borne by the policyholders. Stock lending is only permitted for funds where it is allowed under product terms and conditions for all policyholders that have that fund available for investment.

ReAssure may use Derivatives where appropriate for efficient portfolio management.

5 How are the assets in the unit linked funds valued?

Valuation of Assets

We value all assets listed on a recognised stock exchange and all holdings in collective investment schemes every working day. We value property assets once a month or more frequently if there is a significant change in circumstances, (for example, following the completion of a refurbishment).

The value we place on an asset is based on a quotation from a recognised independent source where available.

Timing of Valuation

Where a market quotation is used we take the asset values as at 5pm on the previous day.

6 How is the unit price calculated?

Asset Fund Valuations

The value applied to assets within a Base Fund and other unit linked funds depends on whether that fund is generally expanding or contracting. This is monitored by the Unit Pricing Committee, which adjusts the unit pricing basis when necessary. This periodic judgment to whether the fund is expanding or contracting is designed to make the price more stable for you.

Expanding

If the number of units we need to allocate to policies is more than the number being sold to pay claims, we may need to create units in a fund. We create units by putting cash or assets into the fund and we price it on an expanding fund basis. This means that we value the assets by assuming we need to buy assets identical to those we already have (the value will be based on market quotations for buying assets and we also include an estimate of the amount of expenses that would be incurred in buying those assets).

Contracting

If the number of units needing to be sold to pay claims exceeds the number of units we need to allocate to other policies, we may need to cancel units in the fund. In this case we price the fund on a contracting fund basis. This means that we value the assets by considering how much we could sell them for and how much we would have left after paying any selling expenses (the value will be based on market quotations for selling assets and we deduct an estimate of the amount of expenses that would be incurred in selling those assets).

Currently ReAssure price all funds on a contracting fund basis.

Base Fund and other unit linked funds unit prices

The value we place on the assets within the funds is the market value. We adjust this for income that has been earned, but not yet received, by adding its value on a reasonable estimate basis. Where applicable the income will be reduced to take account of any charges in relation to tax (see section 8). We make a further adjustment for charges and/or expenses as appropriate (see section 7). The unit price is then calculated by dividing the total value (including adjustments) of the fund by the total number of units in the fund.

Policyholder Fund unit series prices

We calculate two prices for each Policyholder Fund unit series (and type of unit). The buying or 'offer price' is the price at which we allocate units to your policy. The selling or 'bid price' is the price of each unit once it has been allocated to your policy and the price on which claims are based (any exceptions to this will be detailed in your policy documents).

The bid price is calculated by applying the weighted average percentage change of the relevant Base Fund unit prices comprising the underlying profile fund to the bid price at the previous

valuation. The bid price is generally rounded to 4 significant figures and for most unit series this is to the nearest 0.1p (for ex-Barclays Life and the majority of ex-HSBC Life UK funds the practice is such that all bid prices are rounded to the nearest 0.01p).

The offer price is then calculated to take into account a charge we deduct when we allocate units to your policy called the 'bid offer spread' (for your policy this is stated in the original policy documents). For example, if a Policyholder Fund unit series has a bid offer spread of 5% then the offer price is calculated by dividing the unrounded bid price by 0.95. We then round the offer price in the same manner as the bid price. Note that the bid offer spread is nil for some policyholder fund series.

Overview

The prices are calculated internally. This is overseen by the Unit Pricing Committee which reviews all issues relating to the unit pricing and reports relevant issues to the Treating Customers Fairly ("TCF") and Fairness Committees.

7 What is the effect of charges and expenses on my investment?

Note that the term Base Fund covers both Base Funds and other unit linked Funds within this section.

The fund deductions we make fall into two categories, those that are charges or expenses incurred when trading or maintaining the underlying investments, including taxes, and those that are charges we make in line with your policy documents. These deductions will result in a decrease in the value of your investment. For stakeholder products, ReAssure will ensure that the maximum charge documented in policy terms and conditions is not breached.

Any charges or expenses incurred in trading and administering the assets held within the Base Funds are charged directly to the Base Funds. Trading costs currently include such items as stamp duty and dealing commission, while administration costs primarily include investment management and custodial fees. We apply these charges to the Base Funds as they occur.

For some Base Funds there may be a rebate in respect of charges for unit trusts and OEICs, which is credited to the fund where required. Investment charges and/or expenses can be charged to certain policyholder fund series. As a result, these are not charged to Base Funds but are applied to applicable Policyholder Funds in accordance with policy terms and conditions and any existing Court Approved Part VII arrangements.

If in future new types of charges, taxes or expenses are incurred in trading and administering the fund assets, we will charge these directly to the Base Funds. Charges can only be introduced following approval from the Unit Pricing Committee and Fairness Committee.

Annual management charges (AMCs) are applied to the Policyholder Fund unit series and can differ between different policies. This charge is defined as a percentage of the fund value. On some policies, 'initial' or 'capital' units were allocated in respect of premiums paid in the first year or first two years and these are subject to an additional AMC.

To see how charges are taken for your particular policy, you should check your policy documents.

The AMC is applied daily by reducing the unit price of the Policyholder Fund unit series by the equivalent daily charge. The charge calculations we make are done in such a way that when taken over the calendar year the total charge is equivalent to the AMC specified in your policy documents.

Important Information if you hold units in one of our Deposit funds

The Deposit fund provides minimal risk and invests in short-term investment with limited or even no long-term investment growth. It aims to minimise investment loss because of stock market fluctuations.

However, having your money in this fund for an extended period of time means that the value of your pension pot could actually be falling, rather than growing. This could be for a number of different reasons, such as:

- Low interest rates: If interest rates are low (as they currently are), the growth of the Deposit fund will be low.
- Ongoing charges: If your charges are more than the growth of the Deposit Fund your pension pot will reduce in value.

- Inflation: Inflation affects the buying power of your money. Think about how much more your weekly grocery shop costs today than it did ten years ago. Under this assumption, £10,000 in 20 years' time would only be worth the equivalent of £6,100 in today's money.

8 What is the effect of tax on my investment?

Life Insurance company tax is very complex. The amount of tax payable can depend on a number of factors and the tax treatment of life insurance business differs from the tax treatment of pensions business.

The broad aim is to tax policy holders unit linked funds as they would be taxed as a stand alone taxable entity. This ensures that no policy holder is disadvantaged by the tax position of the company from year to year and ensures that tax is shared fairly between different groups of policyholders, different funds and shareholders.

ReAssure believes this is the most appropriate method of calculating tax, in that it is consistent with the policy laid out in the policy documents and also complies fully with the need to treat customers fairly.

Pension funds

We do not make any charges against pension funds in relation to tax on income or capital gains. However, the income from and proceeds from certain investments may have tax deducted at source. Where reasonable and permitted, we will reclaim any tax that may have been deducted on pension fund assets and put this back into the fund when we receive it. Currently, we cannot reclaim tax credits on UK equities.

Life insurance funds

Tax on income on the life proportion of the assets of the base fund is applied at the policyholder tax rate (currently 20%). Expenses are treated as a negative income on the base fund and so receive tax relief.

A capital gain arises if the current value of an asset is greater than the value at which it was purchased (or in the case of property assets the cost of purchase plus development expenditure). For most assets the gain is assessed after increasing the purchase price in line with retail prices inflation over the period between the purchase date and the earlier of the sale date and 31 December 2017. The December 2017 applies due to the removal of the Capital Gains Indexation allowance from 1st January 2018 as announced in the Autumn Budget 2017. This is called 'indexation relief' and the resulting gain is called the 'indexed gain'.

We make an allowance for a charge in relation to tax on indexed gains when we calculate fund prices. The actual allowance we make is complex and designed to aim for fair treatment between all policyholders, between policyholders and us, and over time.

At the most straightforward level, where there is an overall indexed gain we will make allowance for a charge in respect of tax. The tax charge is no more than the policyholder tax rate (currently 20%) on the indexed gain.

Typically no credit is given for aggregate unrealised losses within the Base Funds; however for certain funds the broad tax principles of the originating company are maintained which may result in a different treatment of aggregate unrealised losses.

Some assets (predominantly fixed interest securities) are subject to taxation rules called 'loan relationships'. The tax charge on such assets is based on the combined investment return from both income and any capital gain (or loss) in each year (including both realised and unrealised gains (losses)). The capital gain or loss in each year is based on the price of the asset at subsequent year-ends and there is no indexation relief. The overall tax rate applied is currently 20%.

At the end of the calendar year, holdings in collective investment vehicles are taxed on a deemed disposal basis, at a rate determined by the Chief Actuary. A change made to any of the tax rates must be authorised by the Unit Pricing Committee and reviewed by the Fairness Committee.

9 How does ReAssure use discretion in the management of unit linked funds?

Where discretion is exercised in the management of the funds, ReAssure aims to ensure that its customers are treated fairly and policyholder interests are safeguarded.

Criteria and standards relating to unit pricing are referred to the Fairness Committee for review on an annual basis. Any change in policy requires Unit Pricing Committee approval and Fairness Committee review.

Charges

If permitted by the plan conditions we may increase or decrease the charges or expenses that apply to a fund. If we do this we will give you notice of the changes and explain why we are changing the charges. The Unit Pricing Committee has the authority to reduce an AMC but the AMC can only be increased with both Unit Pricing Committee and Fairness Committee approval. As such any increases to the AMC will consider the interests of all policyholders and be in keeping with our principles of treating customers fairly.

Closing or merging funds

We carefully select the available funds for the Third Party Fund range (available to some ex-Alico and ex-NM policyholders only) from over 3,000 Unit Trusts and OEICs by comparing against several performance indicators and then only select those approved by the Policyholder Investment Committee. Once chosen, funds are reviewed periodically; however funds can be added or removed at any time, subject to Fairness Committee review.

In relation to other funds, we may decide to close any unit fund or alternatively merge two or more unit funds. We will only decide to make such a change if we believe it is in the best interests of the majority of investors. An example is where there are similar funds with similar objectives where the effect of a merger would be to increase efficiency and save costs. Any such fund changes are notified to the Fairness Committee for information. One of the principal duties of the Fairness Committee is to consider the discretionary proposals relating to modifying the investment objectives of any unit-linked fund existing from transfer of business into ReAssure from certain Court approved Schemes.

We will give you notice of any changes and, where a fund is to be closed, will offer you an alternative fund or funds to invest in.

Changes to investment objectives

We regularly review the investment objectives of the funds we offer and from time to time we may agree changes to those objectives following discussions with our investment managers. We will give you notice of any significant changes to investment objectives and tell you the reasons for those changes.

Exceptional circumstances

We may take exceptional actions in exceptional circumstances such as a general or localised event which restricts the availability of our unit pricing systems (for example a fire in one of our buildings) or raises questions over the appropriateness of short-term market asset values (for example following a major terrorist incident).

In such circumstances we may take actions that include, but are not limited to:

- temporary suspension of policyholder ability to cash in units, where permitted by the policy documents
- temporary suspension of trading
- temporary suspension of unit prices
- diverging from the stated investment strategy

We will only use these powers of discretion when necessary to protect the interests of all policyholders and will use them to the minimum extent possible.

Investment in our managed fund

Managed funds are where ReAssure makes decisions about the kind of investments held. They will typically hold a range of investment types, including:

- equities
- bonds
- property
- cash

ReAssure may also engage in stock lending and invest in derivatives. This will only happen where we believe this to be in the interests of policyholders, and only where we do not feel that we're exposing customers to additional or undue risks.

These investments may be made in a variety of industries and in several parts of the world. The active management of the mixture of different asset classes aims to perform in our customers' best interests over time.

Property fund suspensions

This only happens in exceptional circumstances and means that there may be occasions when you experience a delay or receive less than you might otherwise expect when selling your investment.

Error correction

Although we try to avoid any errors in unit pricing, given the complexity of the process, errors can occur from time to time. Where errors are identified we will quickly correct them and any systematic issues will be rectified.

Dependent upon the size of the error we will investigate the impact of the error on individual policyholders and the relevant Policyholder Fund unit series.

Compensation will usually be paid to policyholders if the error results in a price difference of 0.5% or greater and policyholders and/or the fund have been disadvantaged although no compensation will normally be paid to an individual policyholder if the amount due is less than a minimum amount, currently £10.

10 What do I do if I have a complaint?

If you have a complaint regarding your unit linked policy please see the Complaints & Feedback page of our website. You can also call 0800 073 1666 if you need to make a complaint.