



Abbey Life

Guide to how Abbey Life manages its unit linked life and pension funds

1 Purpose of the guide

This guide explains how our unit linked funds work and how we oversee the management of them. Abbey Life currently uses Scottish Widows Investment Partnership (SWIP) as its fund manager.

You should read this leaflet if you have invested in any unit linked fund through a product you bought from any of the companies that now form part of Abbey Life. This guide does not contain specific information about each unit linked fund. For detailed information about all our funds, please see the fund fact sheets or refer to your policy documentation.

If you are unsure which funds you are invested in, please check your policy documentation or call us on 0845 9600 900, quoting your policy number.

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

2 Calculating Unit Prices

This section explains how we value the unit linked funds, the underlying assets in the funds and how the unit price is calculated from this value. Our overall principle in calculating unit prices is to ensure that we treat all policyholders fairly. In particular we aim to:

- Provide a fair valuation of the underlying assets of a unit linked fund;
- Charge appropriate amounts for expenses associated with managing the fund;
- Ensure policyholders receive a fair price when units are bought and sold;
- Use a fair and understandable method of unit pricing.

2.1 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. A fund is divided into units of equal value. The value or price of the unit depends on the value of the underlying assets.

The value of unit linked funds can go down as well as up and is not guaranteed.

You can invest in more than one fund. Every fund has a different mix of assets and different levels of risk. Some funds specialise in safer investments such as cash or government bonds. Other funds specialise in riskier investments, like company shares (also known as equities), that have the potential to deliver better returns over many years but may fluctuate in the shorter term. Abbey Life cannot provide you with financial advice. A financial adviser will be able to help you with your choice of funds.

2.2 What are the underlying assets?

Underlying assets are the investments that determine the price of the units. The mix of assets varies from fund to fund and may include shares, fixed interest securities, property and cash. The fund may also invest in collective investment schemes such as Unit Trusts and Open-Ended Investment Companies (OEICs).

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

2.3 How is the value of my policy calculated?

As stated in 2.1 the fund is divided into equal units, each with the same unit price. The value of your investment is equal to the number of units you hold in each fund multiplied by the unit price for that fund. There may be additional charges applied to this value when the units are sold. Please refer to section 3 on Charges and section 4 on Tax.

2.4 How do we value the fund?

The value of the fund depends on whether it is expanding or contracting.

A fund is expanding when more units are being purchased by policyholders 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 all the assets in the fund 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 policyholders than are being bought. The value of the fund will be based on the highest value at which all the assets in the fund 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 policyholders 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.

As Abbey Life is not taking on any new business, the amount of money being taken out now exceeds new investments in many of our funds

If an asset is listed on a stock exchange, we use the quoted buying or selling price, as appropriate, to value it or, 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 dealing costs, commissions, and stamp duty. These costs reduce the value of the fund.

2.5 What is the price of each unit?

The price at which you can sell units (the selling price, also known as the bid price) is simply the value of the fund divided by the number of units in the fund.

The price at which you can buy units (the buying price, also known as the offer price) is the bid price plus an initial management charge. This initial management charge is 5% of the offer price (5.5% of the offer price in the case of certain ex Hill Samuel Life and ex Target Life funds).

Prices are normally rounded to the nearest 0.1 pence.

2.6 When are prices calculated?

For most unit linked funds, the unit prices are normally calculated each working day at 10.00am.

Property is generally valued at least every 12 months by independent valuers, although adjustments are made to reflect movements in value in the underlying property market for unit pricing purposes.

2.7 At what price do I buy or sell units?

In most cases, when you buy or sell your units you will receive the unit price based on the asset value of the fund, as defined in your policy conditions the day your instruction is received or, in the case of life single premium business or fund switches, the day following receipt of your instruction.

In exceptional circumstances, Abbey Life will take appropriate action to safeguard policyholders' 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, 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 policyholders, for example, where the sale of units would allow you to use already known market data to your advantage
- acts of god, explosion, flood, fire, accident or failure of computer systems

Abbey Life reserves the right to delay the selling of units by up to a maximum of 12 months.

2.8 What happens if Abbey Life makes an error?

We make every effort to ensure prices are calculated correctly. If an error does occur, we will do all we can to correct it as soon as possible and will immediately investigate the financial impact. In most cases we will compensate the policyholders 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.

If a fund suffers a significant loss, we will compensate it, to protect the remaining policyholders.

3 Charges

This section explains some of the charges applied to unit linked funds. The way we make charges can differ depending on the type of policy you have. To see how the charges are applied to your particular policy, you should check your policy documentation.

3.1 What charges affect the units on my policy?

There is an Annual Management Charge which is a percentage of your fund value. If your fund invests in another investment vehicle such as another internal linked fund, a Unit Trust, or an OEIC, the Annual Management Charge we quote allows for any annual management charges in the underlying investment vehicles.

There is also an Initial Management Charge also known as the bid/offer spread. This means that on any day, the price at which we sell units to you will be higher than the price at which you can sell them back to us.

Investment management expenses are charged to certain funds where this is permitted under the policy conditions.

3.2 How do charges and expenses affect the unit price?

For policies where the charge is taken directly from the fund, this charge is taken into account when we calculate the unit price. It is 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 a Fund Management Charge. Your policy documentation will tell you if your policy is affected by these charges.

3.3 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, the law and the cost of external fund management.

4 Taxation

In this section we describe the way in which we allow for tax when pricing the funds. We are liable for tax on the investment income and capital gains that we receive on the investments in such funds. The following information is based on our understanding of the current legislation and HM Revenue & Customs practice as at September 2011. Your tax situation will depend on your personal circumstances. You should speak to a financial adviser if you require more information.

4.1 How will tax affect my investment?

An underlying asset may provide investment returns in the form of income and/or capital gains or losses. These returns may be subject to Income Tax and Capital Gains Tax respectively. Generally any tax payable or potentially payable from a unit linked fund will reduce the bid and offer prices.

Investment Income Taxation

Tax is charged on investment income at the policyholder tax rate (currently 20%). Dividend income received from UK and most overseas equities are treated as having tax already deducted and are not subject to an additional tax charge.

Capital Gains Tax

A capital gain occurs when an investment is sold at a higher price than it was bought (after increasing the purchase price of the asset in line with inflation). Tax is due on the capital gain at the current lower policyholder rate of income tax.

In order to treat all policyholders fairly it is necessary to make an allowance within the unit price for expected future Capital Gains Tax payments on assets of the unit linked fund that have increased in value but have not yet been sold (unrealised capital gains).

Where a fund invests in Unit Trusts or OEICs, these are subject to “deemed disposal” rules. Each year, the shares are assumed to be sold and immediately repurchased. Any gain or loss is spread evenly over a 7 year period and subject to tax. The rate of tax is based on the policyholder tax rate, adjusted to reflect the average time until these gains are deemed to be realised.

In practice a certain amount of approximation is necessary to make a fair and appropriate allowance on a daily basis for unrealised Capital Gains Tax.

For some unit funds there is no allowance within the unit price for Capital Gains Tax and an explicit charge is deducted whenever units are cancelled.

Expense Relief

Tax relief for management expenses incurred by the life funds is granted at the lower policyholder tax rate (currently 20%).

4.2 How do we treat capital losses?

A capital loss occurs when an underlying asset of a unit linked fund is sold at a lower price than it was bought for.

Abbey Life offsets gains and losses in different funds to arrive at an effective rate to apply to the unit linked funds.

5 Who looks after my interests?

Our senior management team is responsible for the operation of your unit linked policy and oversees the work carried out by Scottish Widows Investment Partnership who manage our funds. Our senior management team ensures that your chosen funds are managed in accordance with fund guidelines, policy conditions and commitments made to you. To help with these duties, the senior management team has set up committees to identify, measure, monitor and control areas of risk.

5.1 Discretion

Appropriate management of unit linked funds will at times mean that discretionary actions are necessary. We may therefore choose to exercise discretion in the management of unit linked funds in the following key areas:

- Closing funds or merging funds with similar investment objectives. We will only make major changes to the fund if we believe these to be in the best interest of the majority of policyholders 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.
- We may increase or decrease the charges or expenses that apply to a fund. This will only happen if permitted by the policy conditions.
- Change of pricing basis between expanding and contracting approaches.
- Response to adverse events or significant movements in asset prices.
- Allowances for taxation and buying and selling costs.
- Transaction delays.

Use of discretion may impact on the value of your policy or the way in which our unit linked funds are managed. However, our primary consideration in exercising discretion is that we treat all customers fairly.

6 Further Information

6.1 What do I do if I have a complaint?

Should you have a complaint please contact us. A written copy of our complaint handling procedure is available from our Client Line on 0845 9600 900.

As soon as we receive your complaint, we'll get in touch to let you know we are dealing with it. You will be provided with a direct contact number of the person dealing with your complaint. When contacting us about a complaint, please provide us with your full name, address, date of birth and policy number (if you have one).

We will endeavour to resolve your complaint within 8 weeks. In the unlikely event we've been unable to resolve your complaint within this timescale, we'll contact you again with a further update and explain your rights to take your case to the Financial Ombudsman Service. Complaining to the Financial Ombudsman won't affect your legal rights.

6.2 How can I check the value of my investment?

If you want to know the current value of your investment, please call our Client Line on 0845 9600 900.

6.3 Where can I find out more?

This guide aims to provide a summary of how Abbey Life oversees the management of its unit linked funds. If you need further information please contact us using the details shown below.

7. How you can contact us

You can write to us at:

Client Services Division
Abbey Life Assurance Company Ltd
100 Holdenhurst Road
Bournemouth
BH8 8AL

Or you can telephone our Client Line on 0845 9600 900. Our lines are open Monday to Friday 9.00 am to 5.00 pm, excluding bank holidays.

All our literature is available in large print, Braille and on audio tape or CD.