

# Your guide to how we manage the Unit-Linked Funds originally provided by Teachers Assurance



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## Your guide

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## 1 Introduction

The purpose of this guide is to explain how the unit-linked funds originally provided by Teachers Assurance work, and our current approach to managing them. The unit-linked funds covered by this guide are:

- Managed Fund
- Gilt & Fixed Interest Fund
- Cash Fund
- Pension Managed Fund
- Pension Cash Fund
- Stakeholder Managed Fund
- Stakeholder Fixed Interest Fund
- Stakeholder Cash Fund

This guide will be useful if you invested in one or more of these funds through a policy bought from Teachers Provident Society Limited (which traded as Teachers Assurance). These policies were transferred to LV= on 1 June 2016.

Not all of the funds are available on all unit-linked policies originally provided by Teachers Assurance. Your policy documentation details the funds available for your policy.

This is an important document that will help you understand how these funds work, what factors are considered when deciding how much you will get back and how we manage your money.

Your policy may invest in a range of investments, including investments based on stocks and shares, which carry different levels of risk. The value of your investment can fall as well as rise and you may get back less than you pay in.

To put this guide into context, it might help to read it with your:

- key features document
- policy conditions
- personal illustration showing what you might get back in the future
- annual statement

If there are differences between your policy documentation and this guide, the terms and conditions as set out in your policy documentation will apply.

Key terms are explained in the glossary in section 13. If you need any further information, please contact us on 0800 056 0563. We will record and/or monitor your calls for training and audit purposes.

## 2 What is a unit-linked fund?

These types of investment funds are linked to a product issued by an insurance company or friendly society that allows you to combine your money along with other policyholders. It gives you the opportunity to invest in a much wider spread of investments than if you were to invest on your own. Along with the other policyholders who invest in the fund, you share in the investment performance of the assets held within the fund. The mix of assets held in a unit-linked fund varies from fund to fund.

A unit-linked fund is kept separate from other funds that an insurance company or friendly society may have.

### What does unit-linked mean?

A unit-linked fund is divided into units of equal value. The value, or price, of each unit is determined by the value of the investments of the unit-linked fund. The unit price determines the number of units applied to your policy when you invest money in the fund, and determines the amount you get back when your policy ends. If the value of the investments in the fund rises so does the value of the units. If the value of the investments in the fund falls so does the value of the units.

### 3 How do we invest your money?

Every unit-linked fund has an investment objective. The current investment objectives of the unit-linked funds covered by this guide have not materially changed since you took out your policy. We'll let you know if they ever do.

The investment strategy is then set by LV= to deliver the objective and includes the target asset mix of the fund, the benchmark set for the fund (how the performance of the fund is measured) and limits around the types and amounts of assets in which it can invest.

We will let you know if we decide to significantly change the investment objective or the investment strategy for a fund.

#### What types of assets can be held by the funds?

The types of assets held by a fund depends on the investment objective and investment strategy set for the fund.

The target and current asset mixes for the funds are available on our website at [LV.com/teachers/life-policies/unit-linked/asset-allocation](http://LV.com/teachers/life-policies/unit-linked/asset-allocation).

Apart from the cash funds, the unit-linked funds covered by this guide hold assets by investing in Collective Investment Schemes (CIS). The cash funds invest in a range of cash deposits.

CIS are arrangements which allow people to invest money along with other people. They enable investors to hold a wider range of assets than they would otherwise be able to invest in alone. The assets held by them can include shares of UK and overseas companies (equities), fixed-interest investments such as UK government bonds and corporate bonds and cash.

The investment performance of funds and the outlook for different types of asset are regularly monitored.

#### Who is the asset manager?

Apart from the cash funds, asset management of the unit-linked funds covered by this guide is currently undertaken on our behalf by Columbia Threadneedle Investments. They are responsible for the day-to-day management of the assets in these funds, operating in accordance with the investment strategy set by us. They also manage the CIS that the unit-linked funds invest in.

The cash funds are managed by LV=.

### 4 How do we calculate the value of the funds?

We calculate a value for the assets in each fund each working day. We aim to use up-to-date asset values to value the fund. For example, if an asset is listed on a stock exchange, we use its latest quoted price to value it.

We calculate a total asset value for each fund by combining the value of all the assets within each fund, adding any income due and deducting the value of any charges, anticipated costs and taxes.

The value placed on the assets within each fund also depends on whether that fund is expanding in size or contracting.

#### What is an expanding or contracting fund?

When a fund is expanding, more units are being bought by policyholders than are being sold.

When a fund is contracting, more units are being sold by policyholders than are being bought.

If a fund is expanding, we generally create additional units in the fund and invest in more assets. We work out the fund value based on the price at which we can buy assets, allowing for any costs or taxes associated with the purchase of those assets. In this instance, we say that the fund pricing is on a 'creation' basis.

If a fund is contracting we generally cancel units in the fund, which involves assets being sold. We calculate the fund value based on the selling price for these assets, and an allowance for any costs or taxes associated with selling them. In this instance, we say that the fund pricing is on a 'cancellation' basis.

In general, the value placed on an individual fund if its pricing is on a creation basis will be higher than if it was on a cancellation basis.

We normally take a longer-term view in making a decision about whether a fund is expanding or contracting. By doing this we ensure that policyholders are not normally impacted by unexpected short-term investment activity of other policyholders. When making our decision, we take into account the recent past and look at expectations for the near future.

We review all our funds regularly in this way, usually on a monthly basis.

## 5 How do we calculate the price of the units?

We calculate the value of the unit-linked funds covered by this guide on each working day and then use this valuation to calculate a unit price. We take the total value of a fund as calculated in section 4 and divide this figure by the number of units within the fund to obtain a unit price.

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### Example

The value of the assets of the fund less any charges and tax is **£50,000,000**.

There are **25,000,000** units held by you and other policyholders in the fund.

Then the unit price for the fund is **£2.0000**.

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For 'single-priced' unit-linked funds (the Stakeholder Funds), the price determined above will be the price applied to all transactions in these funds.

For 'dual-priced' unit-linked funds (all funds apart from the Stakeholder Funds), the price determined above is referred to as the 'bid' price. The 'offer' price is normally 5% higher than the bid price as it allows for an initial charge of 5%. Units purchased use the 'offer' price whilst units sold use the 'bid' price. The difference between the bid and offer price is referred to as the bid/offer spread and contributes to the cost of administration. If you switch funds we sell units for you at the bid price and allocate units at the bid price so that no charge is incurred for switching.

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### Example

The bid price is **£2.300**. We use this price when units are sold. If a policyholder had 100,000 units in their policy then they would be sold for £230. This is 100,000 multiplied by £2.300.

The offer price is then **£2.421**. This is the bid price multiplied by 100/95, which allows for the 5% initial charge. We use this price when units are purchased. If a policyholder invested £230 then this would purchase 95,002 units.

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In the above process, we allow for charges, anticipated costs and taxes and rounding to give us the prices.

### What is rounding?

Rounding refers to the way we adjust the price of a unit up or down. When we apply rounding to our unit prices this does not significantly affect the price of the units.

For single-priced funds, prices are normally rounded to the nearest 0.01 pence.

For dual-priced funds bid prices are normally rounded up by no more than 0.1 pence (0.01 pence if a cash fund), and offer prices are normally rounded down by no more than 0.1 pence (0.01 pence if a cash fund). This is within any limits set by policy conditions.

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### Example

The value of the assets of a dual-priced fund less any charges and tax is **£50,000,000**.

There are **24,300,000** units held by you and other policyholders in the fund.

The unrounded bid price is **£2.0576132**, which after rounding up to the higher 0.1 pence becomes **£2.058**.

The offer price is the bid price multiplied by 100/95, which after rounding down to the lower 0.1 pence becomes **£2.166**.

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### When are units priced?

We value the funds at 12 noon on each working day. We use these valuations to calculate the unit prices.

The unit prices calculated are published the next working day on our website at [LV.com/teachers](http://LV.com/teachers).

## What happens if a significant event occurs?

If a significant event occurs, we may need to value the fund and calculate unit prices at a different time or in a different way, suspend unit pricing for a period or defer unit cancellations. For example, this might happen due to a stock market crash, an unplanned closure of a stock exchange, a computer system failure or a major incident. We will take action to price the fund appropriately under those circumstances to protect the interests of you and other investors. Further information on this is in section 11.

## 6 How do we calculate the value of your investment?

The value of your policy on a given date is the number of units within your policy multiplied by the price (bid price if dual-priced) of those units on that date. This is the value that would have been paid if the policy had ended on that given date and is not an indication of the value on any other date.

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

For single-priced funds, when you buy or sell units, the price you pay or receive for your units will be the price calculated for the following working day after we receive your instruction.

For dual-priced funds, when you buy units, the price you pay for your units will be the offer price calculated for the following working day after we receive your instruction. When you sell units, the price you receive for your units will be the bid price calculated for the following working day after we receive your instruction.

For death benefits special conditions may apply - see your policy documentation for details.

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

To work out the value of your investment you need to multiply the number of units you own by the current price (bid price if dual-priced). The current prices are on our website at [LV.com/teachers](http://LV.com/teachers).

Your annual statement includes the number of units you owned, and their value, on the date of the statement. Please remember that there could have been changes in units since your last statement, for example if you have paid further premiums or have made withdrawals (if allowable under your policy).

If you want a current value of your investment, please contact us.

## 7 What types of charges can we apply?

The policy conditions and key features document set out the charges which may be applied to your policy.

### Initial charges

For dual-priced unit-linked funds an initial charge of 5% is applied as part of the 'offer' unit price calculation (section 5 contains more information about this). For the Stakeholder Funds where buying and selling unit prices for a fund are equal, there is no initial charge.

### Annual management charge

Unit prices of our unit-linked funds are subject to an annual management charge (AMC). This is allowed for whenever we calculate a unit price. Details of the AMC rates which apply to the funds covered by this guide are available in the key features document (where issued), policy conditions and marketing literature.

The AMC is normally taken daily by multiplying the current day's value of the fund by the AMC rate divided by the number of days in the year. The unit prices quoted will be after allowing for the AMC.

For CIS investments, we rebate any management charges taken by these schemes into the fund to avoid double-charging you.

### Other charges and expenses

The value of any CIS investment allows for expenses (including stamp duty, corporation tax and taxation on income received) and other charges for buying and selling its assets. These charges and expenses are taken into account in the calculation of the unit price.

Other deductions for tax on income received and capital gains (see section 8) can also be made, as can an appropriate share of any other tax or levies made on the fund.

## Unit allocation and policy fee

For certain policies we invest a percentage (other than 100%) of your investment. This is called an allocation rate. For certain policies we also deduct a policy fee before investing your money. If an allocation rate or policy fee is applicable to your policy, your policy documentation will detail this.

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### Example

You invest **£50** per month into your policy.

If the allocation rate was 103% and the policy fee was **£1.00** a month.

Then **£50.47** ( $£50 - £1.00 \times 103\%$ ) is used to purchase units each month.

If there was also a deduction for waiver of monthly contribution benefit of **£1.00** a month.

Then **£49.44** ( $£50 - £1.00 - £1.00 \times 103\%$ ) is used to purchase units each month.

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## 8 How are the funds taxed?

The basis for allowing for tax in the pricing of unit-linked funds is intended to ensure fairness between our policyholders. In order to do this the fund is charged tax on a basis that is consistent with if the fund was a stand-alone taxable entity.

We take account of UK tax legislation and any overseas tax regimes which apply to the investments held in the fund. Any changes to the tax rules are carried out as soon as possible.

Allowance for tax is applied differently depending on the type of fund that you hold - whether it's a pension (including Stakeholder Funds) or a non-pension fund.

### Pension funds

UK pension funds are not liable to UK tax on their income or gains. However, some income earned overseas may be subject to overseas taxes that cannot be fully recovered. They will receive credit for tax already deducted on certain income received from CIS holdings.

The fund is also liable for any appropriate taxes on the purchase and sale of assets, such as stamp duty reserve tax.

### Non-pension funds

#### Income

Tax is charged at the policyholder tax rate (currently 20%) on income received that has not already been taxed ('unfranked income'), such as income on fixed interest investments. No further tax is charged on income that has already been taxed when received ('franked income'), such as dividends received on UK equities.

#### Gains and losses

A capital gain arises when the current value of an asset held by the fund increases above the value when it was purchased. A capital loss arises when the current value of an asset is below the value when it was purchased. 'Unrealised' gains and losses occur prior to sale of the asset, whereas 'realised' gains and losses occur at the point of sale of the asset (or when it is deemed to have been sold).

For fixed-interest investments and cash, tax is charged at the policyholder tax rate on realised and unrealised gains and losses.

For other assets, tax is charged at the policyholder tax rate on realised and unrealised gains, though the gains can be reduced by an allowance for inflation ('indexation relief') or by carried-forward capital losses. The reduction cannot be more than the gain.

#### Other taxes

The fund is also liable for any appropriate taxes on the purchase and sale of assets, such as stamp duty reserve tax.

## 9 How will personal tax affect your investment?

Your tax situation will depend on your personal circumstances and the type of policy you have purchased. Please see your key features document (where issued) which will explain any further tax you might have to pay when your policy ends.

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## 10 What steps do we take to manage your investment fairly?

You can be confident that your money is being managed by a professional team of investment experts and that you'll be treated fairly. The Board of Directors of LV= is ultimately responsible for the supervision and management of its unit-linked funds.

These responsibilities include:

- making sure unit-linked funds are managed consistently in accordance with their investment strategy and our operational controls
- making sure that, where any discretion is applied, it is done so fairly and in line with policy conditions.

### Pricing errors

We make every effort to calculate prices accurately and do not publish any prices until we have thoroughly checked them. However it is a complex process and a mistake may occur.

A pricing error is a material mistake in any published unit price where the mistake was a result of us not following our pricing policy or our normal pricing processes. A pricing error may also occur if we receive incorrect information from external third parties. All identified pricing errors will be recorded and assessed for significance and whether there has been a systemic error.

### Correction of pricing errors

If a material error does occur, we will do everything we can to correct it as soon as possible and we will investigate any potential financial impact.

We will normally recalculate the correct prices for any error over 0.5% on any given day.

We aim to ensure that policyholders are put back in the position that they would have been in had the error not occurred, subject to de minimis limits. This may be done by allocating units to, or removing units from, a policy, or by making cash payments if the contract has terminated.

## 11 What changes can we make in operating the funds?

Here are some occasions when we may decide to change the way we run and manage the unit-linked funds covered by this guide so that we continue to manage it in the best interest of you and other policyholders.

### Significant events

As we mentioned earlier, if a significant event occurs, we will ensure the funds are priced appropriately under those circumstances. We also have the right to alter policy conditions or adjust the value of the fund in these circumstances.

Under the policy conditions of the policies invested in the funds we could take the following actions:

- temporary suspension of fund trading
- suspend unit pricing
- change the pricing point
- change the investment strategy
- use adjusted or indexed prices to value assets

In making such changes we will consider:

- maintaining an asset portfolio that is appropriate for customers and in line with the investment objective
- communication to policyholders, particularly those paying premiums into the fund

### Fund launches, closure and mergers

It is unlikely we would launch a new unit-linked fund that policies originally provided by Teachers Assurance could invest in. However, for commercial or practical reasons, or to respond to market needs, we may stop further policyholder investment in a fund or merge it with another fund.

If a fund is to close or merge, policyholders will normally be advised in advance and given time to switch to an alternative fund. If this is not possible, we will switch investments to a fund that in our opinion most closely matches the current fund. We will not make any charge for switches if this happens.

### **Pricing basis**

We will decide the creation or cancellation pricing basis for the funds to ensure fairness for customers joining, leaving and staying in the fund.

### **Investment objective and investment strategy**

The investment objective and investment strategy for the funds may be adjusted at any time. Where possible, policyholders will normally be advised of any significant changes in advance.

### **Unit holdings**

We may hold a small number of units in the funds in addition to those owned by our policyholders to efficiently manage the operation of the funds. We manage our unit holding within limits set on the number of units we may own.

### **Pricing point**

We can change the point in the day that funds are priced, and vary the frequency of pricing.

### **Tax**

We can change how actual charges or credits for tax are calculated, when they are removed from or credited to the fund and how deferred tax provisions are calculated.

### **Rounding**

We can change the rounding applied to the unit price subject to any limits in policy conditions.

### **Changes in legislation and tax**

We have the right to alter policy conditions in an appropriate way if changes in legislation and tax affect the operation of the policy.

### **Charges and expenses**

We can make reasonable changes to how we apply costs in dealing with assets.

### **Dealing with errors**

We can change the way we deal with pricing errors. Our current approach is set out in section 10.

## **12 What if I have a complaint?**

We try to get everything right first time, but we know that sometimes things can go wrong. If this happens, please let us know so we can put it right. We always do our best to resolve problems as quickly, thoroughly and fairly as possible.

We can send a leaflet summarising our complaint handling procedures on request. You will see it together with our contact details on our website at [LV.com/contact-us/complaints](http://LV.com/contact-us/complaints).

## 13 Glossary

Word/Phrase	Definition
Asset	An investment purchased with the prospect that it will increase in value and/or generate income. Examples of various types of asset are shares in companies, fixed-interest investments, commercial property and cash. Depending on the type of asset, the value can go up and down and any income produced by it may change from one year to the next.
Board of Directors	The individuals elected by LV='s members to oversee the management of LV= on their behalf.
Collective investment schemes (CIS)	Collective investment schemes are an arrangement which allow people to invest money along with other people. Examples of these are OEICs and Unit Trusts.
Corporate bonds	Loans made to companies for a set period, usually in return for a fixed rate of interest. The interest is paid regularly, with the face value of the loan being returned at the end of the period.
De minimis limit	A small, or minimal, value below which a change will not be made.
Fixed-interest investments	Loans made to governments or companies for a set period, in return for a fixed rate of interest. The interest is paid regularly, with the face value of the loan being returned at the end of the period.
Government bonds	Loans made to governments for a set period, usually in return for a fixed rate of interest. The interest is paid regularly, with the face value of the loan being returned at the end of the period. UK Government Bonds are also known as gilts.
Policy	A policy is a contract which a customer holds with a life insurance company or friendly society such as LV=.
Policyholder	A policyholder is the owner of a policy, but not necessarily the beneficiary of the policy.
Policyholder tax rate	The base tax rate which is applicable to policyholders. This rate is currently 20%.
Shares	A share represents a part ownership of a company and carries with it the entitlement to a proportion of the company's profits, paid as dividends. The value of shares can go up or down quickly, as they are influenced by national and world events. Shares are also known as equities.
Stock exchange	A stock exchange is a market which provides the facility for traders to buy and sell shares and other securities.
Suspension of unit pricing	Suspension of unit pricing is where a unit price is not calculated on a particular day, or period of days. A unit price will later be determined for the day, or days, when pricing was suspended but there may be a delay in this being carried out.

**You can get this and other documents from us in Braille, large print or on audio by contacting us.**

**Liverpool Victoria Friendly Society Limited: County Gates, Bournemouth BH1 2NF.**

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