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

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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 Liverpool Victoria Friendly Society Limited on 1 June 2016, which is now Liverpool Victoria Financial Services Limited (LV=).

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 14. If you need any further information, please contact us on **0800 681 6294**. 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 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 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 are below:

Managed Fund / Pensions Managed Fund / Stakeholder Managed Fund

The current investment objective of these funds is to provide long-term growth with an acceptable level of risk, by investing in a balanced portfolio of assets.

Gilt and Fixed Interest Fund / Stakeholder Fixed Interest Fund

The current investment objective of these funds is to seek an enhanced level of income while seeking to preserve capital by investing in a portfolio of government bonds and corporate bonds.

Cash Fund / Pensions Cash Fund / Stakeholder Cash Fund

The current investment objective of these funds is to provide a high level of security and liquidity by investing in a portfolio of cash and cash like investments.

> The investment strategy for each fund is set by LV= to deliver the objectives and includes the target asset mixes of the funds, the benchmark set for the funds (how the performance of the funds are measured) and limits around the types and amounts of assets in which each fund can invest.

We will let you know if we decide to significantly change the investment objective, the investment strategy or the target asset mix 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**, or by contacting us.

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 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 and US government bonds, 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 BlackRock Investment Management (UK) Ltd. They are responsible for the day-to-day management of the assets in these funds, operating in line 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=.

Sustainability reporting

We're focused on building an inclusive, sustainable and forward-looking business for the benefit of our current and future generations of members. Our Sustainability Report and specific product reports are available on our website. These reports aim to share our approach and provide information on greenhouse gas emissions and potential climate related risk factors related to our products. They have been published in line with the Task Force on Climate-related Financial Disclosures. Please visit **LV.com/product-reporting** to view the reports.

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, expected 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 make sure 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.

Since the funds covered by this guide no longer accept new investments, they will likely remain on a cancellation 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. To work out a unit price, we divide the total value of a fund (as calculated in section 4) by the number of units in the fund.

For example

The value of the assets of the fund less any charges (including in respect of 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 **£2.000**.

For 'single-priced' unit-linked funds (the Stakeholder Funds), the price worked out 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 worked out 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 bought 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.

For 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 bought. If a policyholder invested £230 then this would buy 95.002 units.

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.

For 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**.

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

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 delay 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?

Your policy's value on a specific date is the number of units within your policy multiplied by the unit price (bid price if dual priced) for that day. This is the amount you would have received if the policy ended on that date; it does not indicate the value on any other day.

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

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 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.

For 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) x 103% is used to purchase units each month.

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

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

8 What about Tax?

The basis for allowing for tax in the pricing of unit-linked funds is intended to ensure fairness between our policyholders. We follow UK tax legislation and any overseas tax rules that apply to each fund's investments. We update our tax calculation methods when tax rules change.

Charges in respect of tax are charged to the fund on a basis that is consistent with if the fund was a standalone taxable entity. Charges in respect of tax are applied differently depending on your fund type, such as 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. But some income earned overseas may be subject to overseas taxes that cannot be fully recovered.

Non-pension funds

Income

No charges in respect of tax are made on income that was already taxed when received, such as dividends received on UK equities.

Charges in respect of tax are charged at the policyholder tax rate on untaxed income received, such as income from fixed-interest investments.

Funds may incur withholding tax on amounts received from non-UK investments, and some overseas taxes cannot be fully recovered.

Gains and losses

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

For fixed-interest and cash-like investments, charges in respect of tax are applied at the policyholder tax rate on realised and unrealised gains and losses.

For other assets, charges in respect of tax are applied at the policyholder tax rate on realised and unrealised gains, though the gains may be reduced by carried-forward losses. The reduction cannot be more than the gain. Losses that exceed gains can be carried forward to reduce charges in respect of tax on future gains.

Other charges in respect of tax

Charges in respect of tax may be applied to the funds in respect of transactions such as the purchase and sale of assets. These charges are calculated to mirror tax laws, like Stamp Duty Reserve Tax.

9 How will personal tax affect your investment?

The charges in respect of tax in this guide are calculated on a separate basis to your personal tax situation. The charges in respect of tax applied within the funds cannot be reclaimed from LV= or HMRC.

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.

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 Liverpool Victoria Financial Services Limited 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 line 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. But 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 put it right as soon as possible and we will look into any potential financial impact.

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

We aim to make sure 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 ended.

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 the funds in the best interest of you and other policyholders.

Significant events

As we mentioned earlier, if a significant event occurs, we will make sure 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 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 told 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 told 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 Teachers Stakeholder Pension Scheme – Statement of Investment Principles

The Teachers Stakeholder Pension Scheme invests in the Stakeholder Funds covered by this guide. The Stakeholder Pension Schemes Regulations require managers of Stakeholder Pension Schemes to have and maintain a written statement of the principles governing decisions for the investment options available. You can find the Statement of Investment Principles document on our website at **LV.com/teachers/life-policies/unit-linked**. If you prefer, we can send you a copy, please email us at **HeritagePensions@LV.com**, or call us on **0800 681 6294** (we will record and/or monitor your calls for training and audit purposes).

13 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/life-contact-us/complaints**

14 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, 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	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’ and US government bonds are also known as ‘treasuries’.
Policy	A policy is a contract which a customer holds with a life insurance company 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. Currently this is linked to the basic rate of income tax at 20%. From 6 April 2027 the policyholder tax rate will be linked to the basic savings rate which is rising to 22% from 6 April 2027. The applicable policyholder tax rate used for calculating charges in respect of tax may be 20%, 22%, or a hybrid rate to reflect the period in which the tax charge arose or is expected to arise.
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.

If you'd like us to send you this document or any future correspondence in another format, such as Braille or large print, please just let us know.

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