Windsor
LIFE ASSURANCE

Guide to Unit Linked Funds

Aims of this guide

The guide:
- answers some of the questions you might have about unit linked funds;
- covers how the unit linked funds work and our current approach to managing them;
- describes the use of discretion in the management of the unit linked funds and the measures in place to ensure customers are treated fairly.

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 fund refer to your policy documents (including the terms & conditions) and see the **Investments** section of our website: www.windsor-life.com.

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1 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 spread 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 hold 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 will also 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 return, in the long run, than more risky funds. Riskier funds will contain investments such as equities, which have the potential to produce better returns in the long run, but may fluctuate in the shorter term.

The type of fund that you are able to invest in will depend on your policy and you should refer to your policy documents for details.

The value of the units in a fund can go down as well as up and is not guaranteed.

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

2 How does a unit linked policy work?

Premiums & Loyalty Bonuses

With a unit linked policy a percentage of each premium you pay secures units of the appropriate type for your policy in the fund (or funds) in which you are investing and we say that 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 payable under your policy are determined in accordance with your policy documents.

The benefits may be determined in whole by reference to the value at the bid price (see section 5) of the units allocated to your policy or such value may be compared to the sum assured (e.g. life or critical illness cover) under the policy and the greater amount 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 one or more of a number of 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 are those on the day after we accept your written request to switch, if received before 3pm (see section 4).

3 How are the Windsor Life funds structured and managed?

Fund structure

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. These Base Funds are divided into both life and pension units.

Policyholder Fund unit series are grouped into 33 **Profile Funds** which invest in the Base Funds in an appropriate manner, depending on the objective of each Profile Fund (to find out which Profile Fund you are invested in see the **Investments** section of our website www.windsor-life.com.

The **Policyholder Fund unit series** you are invested in will be detailed in your latest yearly policy statement. Windsor Life has made a number of life company acquisitions over recent years and as a result, we now have over 1,400 individual Policyholder Fund unit series.

The only exceptions to this structure are a small number of unit series that are directly linked to the performance of an external fund.

Management of the funds

The management of the majority of the Base Funds is currently performed by Aberdeen Asset Management. We closely oversee their management of our funds through our Investment Committee, a sub-committee of the Board of Directors. This committee determines investment strategy, taking into account advice from Aberdeen Asset Management and sets benchmarks that are appropriate to each fund and also monitors adherence to these benchmarks.

The Board of Directors has overall responsibility for the operation of Windsor Life (including the choice of Investment managers). Within Windsor Life, the Fairness Committee, an advisory committee to the Board of Directors, reviews discretion applied in the administration of policies (see section 8).

4 How are the assets in the Windsor Life 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 material change in circumstances, (for example, following the completion of a refurbishment).

The value we place on an asset is based on an appropriate 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. As part of the calculation of unit prices, market based adjustments are applied to the asset valuations to take account of movements in the market up to 3pm on the day of the calculation. This means that prices effectively reflect the market price at that time (this is reflected in the rules applied to switching units (see section 2 regarding fund switches).

5 How is the unit price calculated?

Base Fund Asset Valuation

The value applied to assets within a Base Fund depends on whether that fund is generally expanding or contracting.

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 for how much we could sell the fund assets 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).

Windsor Life currently prices on a contracting fund basis.

Base Fund unit prices

The value we place on the assets is the initial value of the Base Funds. We then adjust 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 7). The unit price of the Base Funds is then found by dividing the total value of the Base Fund by the total number of units in the Base 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 price is rounded to no more than the nearest 0.1p.

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.

6 What affect do charges and expenses have?

The fund deductions we make fall into two broad 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.

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.

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 Investment 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.

7 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 equally between different groups of policyholders, different funds and shareholders.

WLA 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 purchase and subsequent sale. 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.

No credit is given for aggregate unrealised losses within the Base Funds.

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 Actuarial Function Holder. A change made to any of the tax rates must be authorised by the Investment Committee and reviewed by the Fairness Committee.

8 How does Windsor Life use discretion in the management of unit linked funds?

Where discretion is exercised in the management of the fund, WLA 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 Investment 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 Investment Committee has the authority to reduce an AMC but the AMC can only be increased with both Investment 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 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.

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 encash 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.

Error correction

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

Dependant 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 0.1% 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.

9 What do I do if I have a complaint?

If you have a complaint regarding your unit linked policy see the ‘Complaints procedure’ page of the **Customer Services** section of the website www.windsor-life.com. You can telephone to make a complaint and our client helpdesk number is 0800 073 1777.