



A GUIDE TO HOW WE MANAGE OUR UNIT-LINKED FUNDS

ABOUT THIS GUIDE

This guide:

- answers some of the questions you may have about our unit-linked funds
- explains how our unit-linked funds work and how we manage them
- describes how we use discretion in managing our unit-linked funds
- describes how we try to ensure that we treat all policyholders fairly.

We use certain terms in this guide that need a more detailed explanation than we can give in the text. We have highlighted these like this and included them in a summary of useful terms at the beginning.

WHO SHOULD READ THIS GUIDE?

Please read this guide if you have a unit-linked policy which was taken out with Scottish Life or a pension which was taken out with Royal London after 24 November 2014.

If you have a unit-linked policy taken out with another part of the Royal London group, you can find a guide relevant for your policy here:

<http://www.royallondon.com/about/corporateinformation/unitlinkedguide/>

If you have a with-profits policy taken out with Scottish Life or another part of the Royal London group, you can find a guide relevant for your policy here:

<http://www.royallondon.com/about/corporategovernance/PPFM>

Please keep this guide with your other policy documents, which you may find helpful to refer to as you go through it.

This guide does not change the terms of your policy; it gives you further information to help you understand your policy better.

1. Useful terms

Asset

A common term for an investment. Examples of assets are company shares, unit trusts, OEICs, fixed interest securities (government or company bonds), property and cash.

Business day

Monday to Friday excluding all UK bank and public holidays that we take.

Capital gain

A fund makes a capital gain when it sells an asset for more than it paid for it.

Capital loss

A fund makes a capital loss when it sells an asset for less than it paid for it.

Collective investments

Collective investments are funds that allow private investors to pool their money with money from other investors. Unit trusts and OEICs are examples of collective investments.

OEIC

An open-ended investment company, a type of collective investment.

Premium

In this guide, we refer to any payment you make into your policy as your premium.

Unit price

The price of the units that you pay when you buy them from us, or we pay you when you sell them back to us. Some types of policy have an offer price at which you buy units and a bid price at which you sell units.

2. What is a unit-linked fund?

A unit-linked fund is a pool of **assets** that many policyholders invest in. It is looked after by a fund manager. The fund is divided into units, each unit representing an equal share of the fund.

The price of the units varies over time and depends on the value of the **assets** in the fund. The **unit price** can go down as well as up and is not guaranteed.

In this guide, when we refer to a 'fund' we mean a unit-linked fund.

There are many different funds available to invest in. Each fund has investment objectives, which set out the type and mix of **assets** that the fund invests in.

3. How does a unit-linked fund work?

We allocate units to your policy at the **unit price** on the day we invest your **premium**. When you cash in some or all of your units you sell them back to us at the **unit price** on the day we receive them. Some types of policy have an offer price which we use when we allocate units to your policy, and a separate, different bid price which we use when you cash in your units. Your policy document explains whether we do this for your policy.

Depending on the type of policy you have, we may charge you by:

- deducting charges from your **premium** before it is used to allocate units to your policy, or
- selling units from your policy to meet our charges, or
- deducting an annual management charge from the unit linked funds that you are invested in
- a combination of these.

For some types of policies we may add bonus units at particular times. Your policy document explains whether and how we do this.

4. What types of fund can my policy invest in?

We offer a wide range of life and pension funds. The main types are as follows.

- Equity funds – invest mainly in company shares.
- Corporate bond and gilt funds – invest in fixed interest or index-linked bonds, which may be loans to companies or the Government.
- Property funds – invest either in bricks and mortar properties, such as office buildings and industrial sites, or in shares in property companies or property related **collective investments**.
- Deposit funds – invest in short term deposits, such as bank and building society accounts.
- Mixed asset funds – invest in a mix of different **assets** such as company shares, property and deposits.

You may invest your policy in a range of funds managed by Royal London Asset Management Limited.

Depending on the type of policy you have, you may also be able to invest in a number of funds (called external linked funds) that in turn invest in funds managed by investment companies outside the Royal London Group. We offer these funds to give you a wider choice of investment. There may be an additional charge for investing in an external linked fund. We explain these under question 12.

Each fund has investment objectives that specify the type and mix of **assets** that the fund invests in, for example, equities in the UK. The funds can invest directly in the **assets** themselves or indirectly through **collective investments**.

The type of policy you have will determine which funds you can invest in. You can ask us for a leaflet describing which funds are available for your policy. You will find our contact details under question 13.

5. How do you manage my policy?

We manage your policy by:

- investing your **premiums** in the funds you choose so that your share of each fund is clearly identifiable by the number of units allocated to your policy
- only taking charges that we've told you about, and
- complying with the terms and conditions of your policy.

In addition, we aim to:

- treat all policyholders fairly whenever we use discretion in managing the funds, and
- resolve any mistakes fairly and consistently as soon as we can.

Our Investment Operations Committee, which consists of senior managers, oversees the operation of our unit-linked funds. This includes fund valuation, fund pricing and the use of discretion in order to treat all policyholders fairly.

Our Investment Advisory Committee, which consists of senior managers and independent investment experts, oversees the investment strategy of our unit-linked funds. This includes ensuring that each fund is invested in a way that meets its investment objectives.

6. How do you value a fund?

We calculate a maximum and minimum value of each fund. We do this every **business day** by adding together the maximum and minimum values of each **asset** in the fund, and:

- adding any income due to the fund, and
- deducting any charges, expenses and tax that are due to be payable by the fund (we explain these under questions 9 and 10).

The maximum value of an **asset** is the lowest price that we can buy it for at that particular time, plus any costs or taxes associated with buying it. The minimum value of an **asset** is the highest price that we can sell it for at that particular time, less any costs or taxes associated with selling it.

The value we use for an **asset** depends on the type of **asset**. For example, we value a company share using the quoted stock market price and allow for any dividends that have been announced but not yet paid. For property we use an independent valuation and allow for any rent that is due but not yet paid.

7. How do you calculate unit prices?

Each time we value the **assets** of a fund we calculate a maximum **unit price** and a minimum **unit price**.

We calculate the maximum **unit price** of each fund as the maximum value of the fund (as described in 6) divided by the number of units in the fund. We calculate the minimum **unit price** of each fund as the minimum value of the fund (also as described in 6) divided by the number of units in the fund.

We normally round the **unit price** to the nearest 0.1p.

If we consider that, in the foreseeable future, more units will be bought than cashed in, we would, if only one price is needed, normally calculate the **unit price** on any **business day** as being equal to the maximum **unit price**.

If we consider that in the foreseeable future, more units will be cashed in than bought, we would normally calculate the **unit price** on any **business day** as being equal to the minimum **unit price**.

To limit the effect of moving between the maximum **unit price** and the minimum **unit price** at any valuation, we may decide to calculate the **unit price** as being between the maximum **unit price** and the minimum **unit price**.

For some types of policy, we calculate a bid price at which you sell units, and a different offer price at which you buy units. We calculate the bid price as being equal to the **unit price** as described above and we calculate the offer price by dividing the **unit price** by 0.95.

We calculate **unit prices** for all our funds each **business day**.

The **unit prices** are updated regularly on our website royallondon.com. The unit price published on a particular day will normally be the one that we calculated on the previous **business day**.

8. How do you calculate how many units to buy or sell for me?

For some types of policy we pay for some of our charges by deducting them from your **premium**. Then we buy units in the fund of your choice with the remainder. Your policy document explains what charges we may take from your **premium** before we buy units with it.

We divide the amount of your **premium** that we use to buy units by the **unit price** on that day to calculate how many units to allocate to your policy. We normally round the number of units down by no more than 1/1000th of a unit.

We sell units to pay any other policy charges that we have not already taken from your **premium**, or to pay you if you choose to cash in part or all of your policy. We divide the amount to be paid by the **unit price** to calculate how many units to cash in from your policy. We normally round the number of units up by no more than 1/1000th of a unit. If you choose to cash in your entire policy we multiply the number of units you have by the **unit price** to calculate how much your policy is worth.

Some types of policy have an offer price at which you buy units and a bid price at which you sell units, while others only have a single **unit price** at which you both buy and sell units. Your policy document explains what kind of policy you have.

Your policy document explains how we round units when we buy or sell units in the fund that your policy invests in. It also sets out which day's prices we use when you give us instructions to cash in part or all of your policy.

9. What additions and deductions affect the unit prices?

We take from each fund the amounts we need to pay the following.

- All costs and taxes involved in buying, selling, valuing, managing and maintaining the fund's investments. For investments in bricks and mortar properties, this includes insurance and repair costs.
- All taxes and duties payable by the fund.
- Interest on money borrowed on behalf of the fund.
- Any other liabilities, expenses, duties, levies or other charges that arise in connection with the fund not otherwise taken into account.
- The annual management charge. We calculate this each **business day** as a percentage of the value of the fund, multiplied by the number of days since the last **business day**, divided by 365. This means, for example, that the charge deducted on a Monday will reflect the total of the charges for that day plus the preceding Saturday and Sunday. Your policy document will tell you the annual management charge for any fund that the policy invests in.

Some funds are invested in **collective investments**. As well as the fund charge for the fund that your policy invests in, there may be a fund charge for the collective investment. In this case we will take care to allow for the different charges when managing the funds and when we calculate the percentage charge which we tell you about in your policy documents and in our investment brochures.

We add to each fund the amounts we receive for the following:

- Dividends received from companies in which the fund owns shares.
- Rent received for bricks and mortar properties belonging to the fund.
- Interest on money deposited on behalf of the fund.

Any other payments received that arise in connection with the fund not otherwise taken into account.

10. How do you allow for tax?

The way we allow for tax when we value a fund depends on whether it is a life fund or a pension fund.

Life funds

We reduce the value of a life fund to allow for the tax we expect it to pay on investment income and **capital gains**.

If the value of the **assets** in the fund is higher than the price we paid for them, we allow for any tax that we expect the fund may suffer on **capital gains**.

In some circumstances, we might also adjust the value of the fund for **capital losses**. We might do this if we believe that we can use those losses to offset tax that the fund might otherwise have to pay in future.

From time to time we review the bases for calculating tax so that they remain fair to all policyholders. We try to 'match' the tax we charge to the fund with the tax the fund will pay in respect of the **assets** in it.

Pension funds

The investment income and **capital gains** on pension funds are normally exempt from tax. Therefore we do not allow for tax when valuing the funds.

11. What happens if you make a mistake in valuing the funds?

We have many detailed control processes and checks which are intended to make sure that we value the funds correctly and that **unit prices** are accurate. However, the procedure is complex, so occasionally we may make a mistake. This may mean, for example, that we calculate a price incorrectly and, as a result, allocate the wrong number of units to your policy or pay you the wrong amount when you cash in units.

Such mistakes are usually small and have a minor effect on the value of the affected fund or policy values. However, if the mistake is significant (generally more than 0.5% of the **unit price**) and you have been adversely affected, we will compensate you as soon as we can after we discover the mistake.

If we have made a significant mistake in your favour, we may ask you to repay some or all of any overpayment or we may take away units that we allocated to your policy by mistake.

We may change the level at which we regard pricing mistakes to be significant.

12. What discretion do you have in managing the funds?

We can use discretion in managing some aspects of our funds. We sometimes need to use discretion because we try to balance:

- the interests of policyholders moving into a fund with those already in the fund, and
- the interests of policyholders moving out of a fund with those staying in the fund.

In other words, we seek to ensure that policyholders who invest in or cash out of a fund can do so without affecting the other policyholders who are invested in that fund, either positively or negatively.

The following paragraphs explain some of these areas of discretion.

Pricing of funds

We may calculate the **unit price** as being equal to either the maximum value of the fund divided by the number of units or the minimum value of the fund divided by the number of units. We may from time to time switch between the two calculation methods in order to protect policyholders in the fund in the event of large flows of money into or out of the fund.

Charges and expenses

We may from time to time change the level of charges we take from a fund, for example to better reflect the costs to us of administering the fund. We will only do this if we have a good reason and the terms and conditions of your policy allow us to. We will tell you about any change, normally with your next yearly statement after the change.

If the change is significant or if the terms and conditions of your policy require us to do so, we will tell you before we make the change.

Tax

We may change the way we allow for tax so as to reflect its impact on the fund more accurately, or reflect changes in tax law.

Closure or merger of funds

We may occasionally close a fund to new policyholders or we may close it completely and require you to switch to another fund. We may also merge funds that have similar investment objectives and charging structures. We would only do this if there was a good reason to do it. We might do this, for example, if a fund has become very small or has very few policyholders left.

If we decide to close or merge a fund, we will normally write to you at least 30 days before the change to:

- tell you when we plan to do this, and why we are doing it
- explain your options, including allowing you to switch your units, without charge, into one or more other funds, and
- tell you which fund we will switch your units into if you don't choose a different one.

When we close or merge funds we will do it in a way that is fair to all policyholders invested in the funds.

Investment in external funds

Depending on the type of policy you have, you may be able to invest in a number of external linked funds, which are Royal London funds that in turn invest in funds managed by companies outside the Royal London Group. The investment objectives for the external funds are set by their fund managers, who might change them without our consent.

We review the investment objectives of each external fund at least every three years to ensure that they remain consistent with the objectives of the Royal London fund that invests in it.

We may consider that the external fund is no longer suitable, for example because the investment objectives are no longer consistent with the objectives to the Royal London fund that invests in it. If this happens, we will sell the Royal London fund's investments in the external fund and buy investments in a different fund. When selecting the new fund we will aim to find one that better suits the Royal London fund's investment objectives.

If your policy has units in an external linked fund, we will normally give you 90 days' written notice if we change the external fund that it invests in, however in some circumstances we may not be able to give this notice. For example, the manager of the external fund may change the investment objective of the fund significantly with less than 90 days' notice.

Exceptional situations

In exceptional situations we may have to take exceptional action to protect policyholders' interests.

This may mean that we have to delay selling units to you or buying them back from you.

Some examples of these situations are:

- a major incident which closes or interrupts a stock market or significantly affects **asset** values
- a major systems failure either at Royal London or at one of the external suppliers we use to value our funds and calculate **unit prices**
- times when we cannot readily sell property **assets**
- times when **asset** prices are moving so fast that we cannot set fair prices.
- a manager of an external linked fund suspends trading of the external fund.

If we cannot obtain a value for an **asset**, we may estimate its value.

If we need to delay buying or selling units, we will only do so to the extent we are allowed to by the terms and conditions of your policy. For funds managed by Royal London Asset Management we are normally allowed to delay buying or selling units by up to six months for property funds and up to one month for other funds. For external linked funds we may delay buying or selling units for longer than this if the manager of the external fund has suspended trading of the external fund.

13. How can I find out more?

Your policy document tells you more about your policy.

Your yearly statement tells you how your policy is doing.

The **unit prices** are updated regularly on our website royallondon.com.

Please ask us if you would like a leaflet describing which funds are available for your policy and a factsheet for each fund. Factsheets for our range of pension and life funds are available on our website royallondon.com/fundcentre.

If you have any questions, please:

 Call us on 0845 60 50 050 between 8am and 6pm
Monday to Friday, except bank holidays.

If calling from overseas, please dial +44 1625 604 331

Or

 Email: customerqueries@royallondon.co.uk

Or

 Write to:

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Royal London House
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