

A guide to how we manage our unit-linked funds for Heritage Equitable Life policies

This guide explains how our unit-linked funds work. It sets out our high level principles and business practices, and is intended to help you understand how we operate our unit-linked business.

If any significant changes are made to our approach to managing unit-linked funds, this guide will be updated. It may also be updated to take account of changes to regulations or tax.

If there are differences between this guide and your policy terms and conditions, the policy terms and conditions will apply.

Quite a lot of jargon surrounds unit-linked funds and we provide a glossary of terms in section 10.

This guide is also available in Braille, large print, audio tape or email. Simply contact us on 0330 159 1530.

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1. What is a Unit Linked Fund?

People who want to invest in the stock market have two main choices:

- (i) They can buy stocks and shares through a stockbroker or
- (ii) They get together with a group of similar investors to pool their money, thereby allowing a greater variety of stocks and shares to be purchased

Pooled assets are commonly called unit-linked funds, unit trusts or for some unhelpful reason open ended investment companies (OEICs). There are many different unit-linked funds, some providing a low return with little risk of not getting your money back, others providing much higher returns but with a much higher risk to your money.

Unit-linked funds are typically divided into, say, 1,000 units. To work out the price of each unit, it is only necessary to divide the total value of the pooled assets by the total number of units. Each investor holds a number of units equivalent to the money they have invested. The price of units changes daily to reflect the value of the assets held in the fund.

You can find out which funds you are invested in and how many units you hold by referring to your Annual Statement or calling us on 0330 159 1530.

The range of the funds we offer is shown in section 9. You can see the risk profile of the unit-linked funds as well as how they perform against similar funds by looking at our website. You will also see our fund factsheets which explain what each fund aims to do.

One last important point about unit-linked funds is that their value can go down as well as up.

2. How we manage your unit-linked investments

The **Asset and Liability Committee** is responsible for:

- fund pricing
- making sure the fund always holds enough units
- the use of discretion in treating policyholders fairly
- overseeing the performance of HSBC who are an independent specialist fund accounting provider
- ensuring that each unit-linked fund is invested in a way that meets its investment and risk objectives
- overseeing the investment performance of J.P. Morgan Asset Management who are the investment partners of Utmost Life and Pensions.
- overseeing the investment performance of Abrdn Investments who were the investment managers of Equitable Life and continue to manage assets in the unit-linked funds.

The role of J.P. Morgan Asset Management and Abrdn Standard Investments is to find investment opportunities to achieve the fund objectives. They have extensive knowledge of the companies, markets and territories in which investments can be made.

3. Working out the value of your investments

3.1 Valuing the funds

The value of your unit-linked funds is based on the number of units you hold and the price of those units. Our unit-linked funds are priced once each working day at noon. Our website is updated with the new price overnight and is available to view the following day.

In exceptional circumstances, it may not be possible to price a fund in the usual way. For example, shares in individual companies may be suspended because of unusual trading patterns or a restructure, or entire stock markets may close temporarily if conditions are extreme. In the rare event of this happening, we would ensure that a fair price is set to protect the interests of all policyholders. In extreme conditions where we cannot set a price, we may defer payment until a price becomes available.

You can find out the value of your investments by either writing to us or calling us on 0330 159 1530. You can also see the value of your investments in your Annual Statement.

3.2 Unit pricing

The unit price is the total value of the fund divided by the number of units in the fund. You can find prices of our funds on our website.

The Bid price is the price at which you can sell units.

The Offer price is the price at which you can buy units and is the price at which units are normally allocated to your policy.

As we do not currently make a charge on contributions, these prices are the same.

3.3 Pricing errors

We make every effort to calculate prices accurately and all are thoroughly checked before publication. If a significant error does occur, we will do everything we can to correct it as soon as possible. We will put you back as closely as we can to the position you would have been in had the error not occurred.

In line with industry practice, we will always consider an error of 0.5% or more in unit prices to be significant. If you were to benefit from a pricing error, we reserve the right to recover this.

4. What changes can you make to your investments?

4.1 *Switching funds*

If your investment priorities change over time, it is normally possible to switch some or all of your existing investments to a different fund.

If we receive switch instructions by 5pm on a working day, we use the bid prices on the next working day. For instructions received after 5pm on a working day, the bid prices used are those for the next working day plus one.

For example, an instruction received at 3pm Tuesday would be processed using bid prices calculated at midday on Wednesday. An instruction received at 6pm Tuesday would be processed using bid prices calculated at midday on Thursday.

We will then send you a statement detailing the change in your investments and the price used.

While there is currently no charge for switching funds, Utmost Life and Pensions reserves the right to apply a charge in future. Utmost Life and Pensions also reserves the right to change the method and date used to price the switch.

If you are not sure what kind of fund suits your needs, we recommend that you speak to a financial adviser. You can find further information about financial advice in section 11.

There is no restriction on the number of funds you can invest in.

4.2 *Paying in future contributions*

We will continue to accept new contributions if the conditions of your policy allow this. Your policy documents will explain the conditions that apply. Alternatively, call us on 0330 159 1530 and we will explain them to you.

4.3 *Allocations of contributions*

Contributions may be directed into different funds, or in different proportions than previously requested. While there is currently no charge for doing this, Utmost Life and Pensions reserves the right to apply a charge in future.

4.4 *Withdrawing your investments*

Options for payment of your benefits depend on the type of policy you have. Contact us to find out the details.

4.5 *Carrying out your instructions*

You can contact us either by letter, email to enquiries@utmost.co.uk, or calling 0330 159 1530.

Typically, we will complete your request and send confirmation to you within ten working days of receiving all the requirements we need to proceed. Where you are requesting payment to be made to your bank account, the money will usually be in your account within five working days of completing your request. For switch instructions sent by email, we will require a scanned signature in order to process your request.

We reserve the right to defer acting upon your request as sometimes the underlying assets are not always readily saleable. The maximum deferred period for all funds apart from Property is one month. Property funds have no maximum period but will only be suspended if the underlying asset is suspended and we have no other option. We will automatically suspend our fund until that asset suspension is lifted and a price is supplied to us. This is likely only to happen in exceptional circumstances where we cannot set a price.

5. Charges

5.1 Annual management charges

Utmost Life and Pensions collects an annual management charge from our funds to cover the expenses of administering your policy. The charge is taken into account when we calculate the unit price each day.

Expenses which we expect to recover through the annual management charge include:

- administration costs
- investment valuation costs
- levies, including those payable to regulators
- investment management costs

The annual management charges for the funds are shown on Utmost Life and Pensions website www.utmost.co.uk/.

We review the annual management charge at least annually to make sure it not only covers the cost of our expenses, but is fair. If there is any change in the future, we will write to you.

5.2 Other expenses

Some costs are not covered by the annual management charge. They may include expenses to buy or sell investments and tax payments. The Property Fund is charged a portion of the property asset management related expenses. These additional costs are taken directly from the funds thereby reducing the price of units.

5.3 Charge on contributions

There is currently no charge on contributions to pension or life funds.

Your policy documents describe the charges that apply to your policy. Alternatively, call us on 0330 159 1530 and we will explain how charges work for your policy.

6. Taxation on unit-linked funds

The taxation of UK life funds is based on investment income and gains, less expenses. We make an allowance for this tax within the pricing of unit-linked life funds. Pension funds are exempt from this tax.

Our aim is to ensure that the way we allow for tax in unit pricing is fair between different groups of policyholders and between different funds.

Your own tax situation will depend on your personal circumstances. For example, a chargeable gain which would be liable for tax may occur if you fully or partially cash in your plan and make a profit. You should speak to a financial adviser if you require more information.

7. Stock Lending

Stock lending is not permitted by Utmost as part of the life and pension fund range, however;

The underlying OEICS may undertake stock lending from time to time. The Abrdn and J.P. Morgan OEIC's can lend on a small revenue basis, the majority of which provides a return for the fund.

At the time of writing the percentage of entitlement is as follows:

Abrdn: The fund is entitled to receive 90% of the income earned. The remaining 10% belongs to the stock lending agent.

J.P. Morgan: The fund is entitled to receive 90% of the income earned. The remaining 10% belongs to the stock lending agent.

Utmost Life and Pensions, review any breaches to compliance through the monthly Performance Review meetings with Abrdn & J.P. Morgan.

8. Using discretion to manage our unit-linked funds

Discretion is where Utmost Life and Pensions makes a choice on the most appropriate course of action to take. In exercising our discretion, we aim to treat all policyholders fairly whether they are joining a fund, leaving a fund, or remaining as an investor within a fund.

Charges

We will review charges at least annually to make sure they not only cover the cost of our expenses but are fair. If there is any change in the future, we will write to you.

Fund Investment Objective and Risk

We will review the investments in each fund to ensure they meet the objective. We also consider the risk associated with each type of fund and amend the risk profile as necessary.

More information on the investment profile and risk of each fund can be found on our website.

Valuation of the fund's investments

The unit-linked funds are invested in open ended investment companies which match the fund objective to give exposure to a wide range of investments. The pricing basis of the investment may be changed by the Fund Manager to ensure fairness to those joining, leaving or staying in the fund.

Where we do not have a current valuation for a particular investment, we may update the previous price using an appropriate index or other method agreed by our Asset and Liability Committee.

Each year we also review when the funds are priced (currently daily at noon), to ensure it remains appropriate and fair.

Cashing in your unit-linked investments and switching funds

The unit-linked funds are invested in investments which can be bought and sold daily to cover any claims, switches and investments.

We reserve the right to defer acting upon your request as sometimes the underlying assets are not always readily saleable. The maximum deferred period for all funds apart from Property is one month. Property funds have no maximum period but will only be suspended if the underlying asset is suspended and we have no other option. We will automatically suspend our fund until that asset suspension is lifted and a price is supplied to us. This is likely only to happen in exceptional circumstances where we cannot set a price.

Closing and merging funds

For practical reasons, or to respond to market needs, we may close a fund to new contributions or close it completely. We may also merge it with another fund. If this happens, we will give you notice of the closure or merger. If necessary, we will ask you to tell us which alternative fund you would like to invest in.

New Funds

To increase policyholder choice, we may open new funds to give policyholders more investment opportunities. You may be able to switch the value of existing units to a new fund.

Tax

We may change the way we allow for tax to reflect, for example, changes in tax law.

Exceptional circumstances

In exceptional circumstances, we reserve the right to suspend trading, suspend unit pricing or diverge from our stated investment strategy. For example, shares in individual companies may be suspended because of unusual trading patterns or restructure, or entire stock markets may close temporarily if conditions are extreme. We will use such powers to the minimum extent necessary to protect the fund and our policyholders.

In exercising our discretion, we aim to treat all policyholders fairly whether they are joining a fund, leaving a fund, or remaining as an investor within a fund.

9. Key principles

- We act in the best interests of all our policyholders
- We regularly measure the performance of our unit-linked funds against similar funds elsewhere and share with you how we compare
- We provide you with relevant, clear and timely information
- We only deduct charges that we've told you about
- We comply with the terms and conditions of your policy
- We have robust oversight arrangements in place
- We act in accordance with the relevant requirements of the Financial Conduct Authority and the Prudential Regulation Authority

10. Range of unit-linked funds

UK and International Sterling

Multi-Asset Moderate

- Invests in equities, fixed interest, property and cash
- Aims to provide long term capital growth - potential moderate to high levels of price fluctuation
- Annual Management Charge 0.75%

Multi-Asset Cautious

- Invests in equities, fixed interest and cash
- Aims to provide long term capital growth - potential low to moderate levels of price fluctuations.
- Annual Management Charge 0.75%

Multi-Asset Growth

- Invests in equities, fixed interest, property and cash
- Aims to provide long term capital growth - potential high levels of price fluctuations
- Annual Management Charge 0.75%

Sterling Corporate Bond

- Invests primarily in Sterling denominated corporate bonds.
- Aims to achieve return by combination of income and capital growth.
- Annual Management Charge 0.75%

Money Market

- Invests in short term deposits
- Aims to preserve capital whilst providing returns in line with money market rates
- Annual Management Charge 0.5%

UK Government Bond Fund

- Aims to produce an income with the possibility of capital growth
- Invests primarily in UK government debt securities
- Annual Management Charge 0.5%

UK FTSE All-Share Tracker

- Aims to match as closely as possible the performance of the FTSE All-Share Index
- Annual Management Charge 0.5%

Managed

- Aims to maximise the overall return from investments
- Invests in UK and overseas equities, gilt-edged and fixed interest stock and property
- Annual Management Charge 0.75%

UK Equity

- Aims to achieve long term capital growth by investing mainly in UK companies
- Annual Management Charge 0.75%

Global Equity

- Aims to achieve long term capital growth by investing in a diversified global portfolio
- Annual Management Charge 0.75%

European Equity

- Aims to achieve long term capital growth by investing mainly in European companies, excluding the UK
- Annual Management Charge 0.75%

US Equity

- Aims to achieve long term capital growth by investing mainly in US companies
- Annual Management Charge 0.75%

Asia Pacific Equity

- Aims to achieve long term capital growth by investing mainly in Asia Pacific companies, excluding Japanese
- Annual Management Charge 0.75%

Fund of Investment Trusts (Closed to new investment 17 June 2019)

- Aims to achieve long term capital growth by investing in Investment Trust companies
- Annual Management Charge 0.75%
- The underlying asset of this fund is managed by Lloyds Banking Group

Property Fund (Closed to new investment 17 June 2019)

- Aims to provide a combination of income and capital growth consistent with a diversified commercial property portfolio
- Invests mainly in UK commercial property
- Annual Management Charge 1%
- Property asset management related expense 0.48% as at 31 December 2019

International Dollar

US Dollar Global Equity

- Aims to achieve long term capital growth by investing in a diversified global portfolio
- Annual Management Charge 0.75%

US Dollar Global Bond

- Aims to produce an income with the possibility of capital growth
- Invests primarily in Global government debt securities.
- Annual Management Charge 0.5%

You can find more information about the unit-linked funds on our website.

11. Glossary of terms

Asset

Company shares, fixed interest securities (government or company bonds), property and cash.

Bid price

The price at which you can sell units.

Collective investment scheme

An arrangement that allows people to pool their savings along with other investors.

Contribution

Any payment you make into your policy.

Discretion

This is where the company makes a choice on the most appropriate course of action to protect the interests of policyholders.

Financial Adviser

A professional who helps individuals manage their finances by providing advice on money issues such as investments.

Fund Manager

The organisation or individuals responsible for managing unit-linked funds on behalf of a Life and Pension company. Utmost Life and Pensions' unit-linked funds are managed by J.P. Morgan and may also contain investments managed by Abrdn.

Fund objectives

These describe the investment aims of the fund and how they will be achieved.

Open Ended Investment Company (OEIC)

An OEIC is a collective investment scheme which is run as a company. OEICs generally invest in a wide range of assets including company shares, bonds issued by companies and governments, and commercial property. The majority of Utmost Life and Pensions' unit-linked funds invest into OEICs.

Offer Price

The price at which you can buy units. This is the price at which units are normally allocated to your policy.

Risk Profile

Each fund will carry a level of risk to your investments; some provide a low return with little risk of not getting your money back, others provide much higher returns but with a much higher risk to your money.

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.

Unit Trust

An open ended collective investment scheme which is held by Trustees on behalf of investors.

12. Financial advice and guidance

When considering whether to invest in a particular fund, it is important that you are aware of the objectives of the fund. You also need to be aware of the types of asset it invests in, the level of risk in the fund and the investment approach the fund manager will take as a result.

It is important that you regularly review your unit-linked investments to make sure that they fit your needs and that you are comfortable with the level of risk. We recommend you discuss this with a financial adviser.

You can find a financial adviser in your area at www.unbiased.co.uk. A financial adviser will inform you of the fee that they charge for this service.

We would also draw your attention to Pension Wise, which is a free and impartial service from MoneyHelper that helps you understand what you can do with your pension. You can visit their website at www.moneyhelper.org.uk/pensionwise or call them on 0800 138 3944 to book a free phone or face-to-face appointment.

13. Information about Utmost Life and Pensions

Your policy was issued by the Equitable Life and was transferred to Utmost Life and Pensions on 1 January 2020.

If you have any questions about your policy, please call us on 0330 159 1530 between 9am and 5pm, Monday to Friday. Information will only be given on Utmost Life and Pension products.

The information contained in this guide is based on Utmost Life and Pensions' understanding of current legislation. This guide may change from time to time and the latest version is always available on Utmost Life and Pensions' website www.utmost.co.uk or on request.

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Calls may be recorded for training or monitoring purposes.

Utmost Life and Pensions Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The firm is on the Financial Services Register, registration number 775704. Registered in England and Wales number 10559664. Utmost Life and Pensions Services Limited is registered in England and Wales number 10559966. Both have their registered office at: Walton Street, Aylesbury, Bucks HP21 7QW.