

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

Utmost Life and Pensions Limited operates a number of unit linked funds. This guide explains how our unit linked funds work and describes the standards and principles that we apply to managing them.

We may change the way our funds operate in future and if we do we'll let you know about any material changes as soon as we can. We will only make changes that are consistent with treating customers fairly.

We intend that this document contains sufficient information to provide you with a clear understanding of our unit linked funds. We have attempted to avoid technical language wherever possible and have included a glossary of terms starting at page 11 to help you understand some terms used in this document that may not be familiar to you. This document is reviewed annually.

**Your policy terms and conditions provide specific information about your policy.**

### Key principles

We aim to treat all our customers fairly and aim to act in the best interests of our policyholders.

We invest your money in the funds you select and we clearly identify the number of units in each fund included in your policy.

We undertake to provide you with clear, relevant and timely information about how your fund is doing.

We manage our funds in line with your policy terms and conditions.

We only take charges that are described in your policy document or in this guide.

We have governance and oversight arrangements in place to ensure you get a fair return based on the performance of your chosen funds.

We manage our funds in accordance with relevant rules and guidelines set by the Financial Conduct Authority (FCA).

We aim to respond to customer enquiries as soon as we can and to resolve any issues in such a way as to be fair to our policyholders.

## Management structure

The Utmost Life and Pensions Board of Directors has overall responsibility for the governance and management of all aspects of the unit linked fund range. This includes duties carried out by employees of Utmost Life and Pensions as well as functions outsourced to service providers and investment managers.

Our Risk and Compliance Committee, Investment Committee, Fair Customer Outcomes Governance Committee, Asset and Liability Committee and the Chief Actuary govern the day to day management and oversight of our unit linked funds and investments.

The committees are made up of a number of our senior managers and meet regularly to review how the funds are doing compared to their objectives, market conditions and other funds. They receive frequent reports from the fund managers:

- J.P. Morgan Asset Management, for all funds except the Utmost Property funds, and
- Schroder Investment Management Limited for the Utmost Property funds.

## What is a unit linked fund?

A unit linked fund is a type of collective investment, sometimes known as an insured fund, offered by insurance companies. Collective investments allow you to combine your money with that of other customers in order to invest in a wider range of assets than if you were investing on your own. Fund managers then invest the collected money into various assets in line with the fund objectives. These investments can include other collective investments, such as unit trusts and OEICs, as well as directly investing in stocks and shares, bonds, property and cash.

Premiums you pay for your life policy or pension are allocated to units in your selected fund(s).

You will share any gains or losses of the fund with the other policyholders who have selected that fund. Your policy documentation and regular updates will show which funds you have selected and how many units you have been allocated.

Because our products have different policy terms and conditions, when you choose a fund you may notice reference to a series. You are allocated units in a series within your selected fund according to which investment product you have chosen and the charging structure that applies.

## Investing your money

Our unit linked funds hold different investments depending on the objectives of each fund. For example, a fund might invest in shares, bought on the stock market, company bonds, government bonds, property or cash. Investments can change over time depending on the aims of the fund.

Our Quarterly Investment Bulletins, available on request or from our website, provide descriptions of the aims and objectives of each unit linked fund and information about their assets, risk and past performance.

Our unit linked funds are mostly invested in other collective investment schemes managed by J.P. Morgan Asset Management and Schroder Investment Management Limited.. This enables our unit linked funds to gain exposure to a wider variety of investments than would be possible if we invested directly in individual stocks and shares, and enables our funds to benefit from the experience and investment expertise of respected professional fund managers. These investments fall into one or more of the broad categories listed below. Funds generally hold a wide range of separate investments within each category.

### The main types of investment our funds can hold

- **Equities.** Shares in UK or overseas companies. Shares are usually quoted on the UK or an overseas stock exchange but can, in some situations, be unquoted shares which are traded privately and not listed on a stock exchange.
- **Bonds.** Also known as fixed interest securities. Loans issued by companies and governments, usually paying regular, fixed interest payments for the term of the loan.
- **Corporate Bonds.** Bonds issued by companies either in the UK or overseas.
- **Government Bonds.** Bonds issued by governments, either in the UK or overseas. UK government bonds are also referred to as **gilts** or **gilt edged securities**.
- **Inflation Linked Bonds.** Bonds issued by governments or companies where the interest paid and the eventual repayment value will change in line with a nationally recognised measure such as the Retail Prices Index or an overseas equivalent.
- **Money Market.** Short term loans and deposits with an average maturity of less than one year.
- **Commercial Property.** Physical commercial properties, either in the UK or overseas, and companies deriving their profits from property-related business activities.
- **Cash.** Deposits and current accounts with banks and other financial institutions.
- **Derivatives.** Contracts usually giving a commitment or an option to buy or sell assets on specified conditions, for example, on a set date in the future and at a set price.
- **Collective investment schemes.** Funds such as unit trusts which themselves invest in some or any of the above asset types.

## How we value our unit linked funds

We calculate the value of each of our unit linked funds on a daily basis, based on the value of the investments in each fund plus any income due and less any expenses owed.

We value our funds every weekday except English public holidays. We normally value our funds at 10 am based on the most up to date asset prices available at the time.

For the most part, our unit linked funds invest in externally managed collective investment schemes, which we value using publicly quoted prices.

Directly held investments such as shares and bonds are also valued using publicly quoted market prices where possible.

Unquoted shares and properties that do not have daily quoted prices are valued regularly by independent, qualified brokers, property consultants and financial professionals.

If we cannot obtain accurate or reliable prices we may change the time at which we value a fund or we may estimate a fair value price. If Utmost Life and Pensions offices are closed on a day that would normally be a valuation day, the unit linked funds will be valued in the usual way and prices applied to any such valuation days on the next day on which the offices are open.

## Deciding on the valuation basis

The method for calculating a fund's value depends on whether the fund is expanding or contracting:

- **Expanding basis:** if more money is coming in than going out, we allow for the cost of buying new investments (also known as the 'creation' or 'offer' basis).
- **Contracting basis:** if more money is leaving the fund than coming in, we allow for costs of selling investments (also known as the 'cancellation' or 'bid' basis).

Our funds are currently valued on a contracting basis. The basis is reviewed periodically to reflect trends of inflows and outflows and can vary between unit linked funds. We also allow for anticipated redemptions by having sufficient cash available within each fund.

## How we apply taxation to our unit linked funds

We calculate the taxes that apply to our unit linked funds according to the specific activity and tax status of each individual fund on a standalone basis.

Our Pension funds and Life Tax Exempt funds are free of UK income tax and capital gains tax. We therefore make no adjustment to the value of this type of fund in respect of these taxes.

Taxation for our other Life funds is calculated on investment income and gains less expenses, and is allowed for by making adjustments to the value of the fund whenever the fund is valued, based on the amount of tax we expect to be payable by that fund. We offset losses against gains and apply tax reliefs where available. The rate of tax is based on the policyholder tax rate (currently 20%), adjusted to reflect the nature of the income, gain, loss or expense and the likelihood of it occurring.

We calculate tax charges according to the tax rules set out by HM Revenue and Customs (HMRC), and apply any changes to the rules as soon as we are able.

This guide refers to how we apply tax to our funds and does not cover your own tax situation which will depend on your personal circumstances. If you require further information about your own tax situation, please speak to your financial adviser.

## How we work out unit prices

To calculate the unit price, we divide the value of each unit linked fund by the number of units in that fund. The number of units is the current total allocated to you plus units allocated to all other policyholders who have selected that fund, plus any units which are pending allocation to policyholders. As described above, the fund value used for this calculation depends on whether the fund is contracting or expanding.

We usually quote two unit prices:

- **Bid Price** – the price at which we cancel units if, for example, your policy matures or you wish to switch funds or cash in or surrender your policy
- **Offer Price** – the price at which we allocate new units in respect of any new premiums. Where relevant, we may deduct an initial charge, which is typically 5%. The Offer Price is calculated from the Bid Price and allows for the initial charge, e.g. Offer Price = Bid Price divided by 0.95

Bid prices are rounded up to the nearest 0.1 pence, for example a bid price of 10.84p will be rounded to 10.9p. Offer prices are rounded to the nearest 0.1 pence, for example 10.73p will be rounded 10.7p.

Your policy terms and conditions will say whether an initial charge (sometimes referred to as the bid/offer spread) applies to your policy.

We allocate units to your policy at the offer price on the day we commence your policy or, for regular premiums, on the day your premium is due. We will usually work out the number of units by using the unit price on the due date of your premium although the units will not be added until your premium has been received.

If you request to switch the fund your premiums are invested in then this will be done on the business day after we receive your written instruction. By using the next available price we are exercising a policy called 'forward pricing' which helps protect all policyholders in the fund. It means no-one can take advantage of changes in the stock market before they are reflected in the unit price.

Some of our unit linked Deposit funds are managed in such a way as to ensure the daily price does not go down. We do this by injecting cash into the fund on any day when the fund valuation is lower than the previous day. By compensating for any fall in value, the fund price will be maintained. On any day where the valuation is higher than the previous day, no adjustment is made and the price will rise.

Our fund prices are published daily on our website [www.utmost.co.uk](http://www.utmost.co.uk)

## When we create and cancel units

Units are created or cancelled when we invest new premiums or process claims, surrenders and maturities.

Our principles when creating and cancelling units are to treat our policyholders fairly and in accordance with the policy provisions, legislation, insurance regulations and FCA rules and guidance. We aim to ensure that:

- instructions to create or cancel units are carried out promptly in accordance with the relevant policy provisions
- procedures that we follow to create and cancel units are fair and applied consistently.

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

## How we apply prices to your policy

When you redeem/surrender your policy, or if your policy matures, we apply the bid price on the date specified in your policy which may be a date in the past. An example of this is the payment we make if you die, which for some policies is based on the price at the date of death.

Your policy document will set out, for the different types of policy transactions, whether we use a unit price calculated in the future or on a specific date in the past, which may have been subsequently amended by a court approved business transfer agreement.

## Charges and expenses applied to our funds

The charges and expenses applied to our unit linked funds are explained below.

The effect of charges and expenses is to reduce the price, and therefore the performance, of our unit linked funds.

The following charges and expenses may be applied:

### Initial charge

For some of our unit linked funds (see Appendix), an initial charge will be applied when we allocate units to you. This goes towards our costs when handling and setting up your policy. See also “bid” and “offer” prices on page 5.

### Annual Charge

The Annual Charge covers all the ongoing annual costs involved in managing the unit linked funds and their investments. The Annual Charge covers our costs and external fund management and administration costs. It is calculated by multiplying the value of each fund by the relevant Annual Charge percentage rate, divided by the number of days in the year, and is deducted directly from the unit linked funds on a daily basis. This deduction is made before the unit price is calculated. We may change how we calculate the Annual Charge if a specific need arises which makes it necessary to do so. We would inform you of any changes affecting the amount you pay.

### Costs not included in the Annual Charge

The Annual Charge excludes any extraordinary legal or tax charges, and portfolio transaction costs. These costs will only be charged when they occur and will be deducted from the fund and reflected in the unit price.

#### *Extraordinary legal or tax charges*

Extraordinary costs specifically relate to legal or tax claims that are both exceptional and unforeseeable. Please be aware that such costs are uncommon, and would not be expected in most years. Since they are unusual, these costs are excluded from the Annual Charge.

#### *Portfolio transaction costs*

Portfolio transaction costs are incurred when a fund manager buys or sells investments held in a fund, as part of their day to day asset management activity. They are variable because the more transaction activity there is in a given period, the greater the portfolio transaction costs will be.

Including portfolio transaction costs within the Annual Charge could create, or be perceived to create, a disincentive for fund managers to make changes to their portfolios, as placing fewer transactions would keep costs down.

We believe that fund managers should face no disincentive to make changes to portfolios if they believe them to be in the interests of customers. This is the main reason why portfolio transaction costs are excluded the Annual Charge.

### Additional costs associated with the transfer to J.P. Morgan in November 2019

In November 2019, Utmost Life and Pensions appointed J.P. Morgan Asset Management as the investment manager for all their unit linked funds except the Property funds. There are one-off costs associated with the funds moving from one investment manager to another, as the current manager sells the investments it holds and the new manager buys investments with the money it receives.

The one-off transaction costs for the Deposit and Fixed Interest funds will be taken from the fund on the transfer date. The cost is estimated to be 0.01%.

The one-off transaction costs for both the Managed and Equity fund will be deducted from the funds over an eighteen month period, from November 2019 to April 2021. The estimated cost for the Managed fund is 0.35%, and for the Equity fund is 0.65%.

**Additional expenses relating to property investment**

Expenses from direct investment in property are usually deducted from funds on a quarterly basis and reflected in the unit price.

Expenses from other investments in property will be reflected in the unit price for that investment.

Details of charges applied to each fund and fund series can be found in the Appendix.



## Decisions we can make while managing our unit linked funds

We need to make certain decisions when managing some aspects of our funds that affect how they are run. For example we may need to balance the interests of policyholders moving into a fund with those of policyholders already in the fund, or the interests of policyholders moving out of a fund with those remaining in the fund.

The following paragraphs explain some of these areas of discretion.

### Charges

We will keep charges under review and if there is any change necessary in the future, we will let you know.

### Taxation

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

### Closure or merger of funds

We may 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 might do this, for example, if a fund has become very small or has very few policyholders left, to prevent costs becoming excessive.

If we decide to close or merge a fund in which you have been allocated units, we will normally write to you to explain:

- when we plan to do this
- your options, including allowing you to switch your allocation, without charge, into one or more other funds, and
- which fund we will switch your allocation into if you don't choose one.

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

### Errors

At Utmost Life and Pensions our customers are key to our business success and we are committed to providing good service and treating you fairly at all times. We review our controls regularly to help ensure we calculate prices and valuations accurately, and have engaged professional service providers, HSBC Bank plc, to undertake the day to day processing of our funds. However, these are complex processes and mistakes can occasionally happen.

As part of any investigation we will look at whether there has been a significant impact on unit prices and whether corrective action is required. We usually consider an error of more than 0.5% to be significant.

When making corrections, our aim is to put each customer, as far as is possible, in the position they would have been in if the error had not occurred. This can involve adjusting the unit price, adjusting the number of units on a policy or making cash payments if the policy is no longer in force. We aim to complete this process within a reasonable time but it can take some time for us to find customers who have left us.

Irrespective of the impact, all errors are investigated and we take appropriate actions to avoid recurrence. We report our errors and what we have done to resolve them to Senior Management. Material issues are also reported to the Utmost Life and Pensions Board of Directors who are ultimately responsible for the governance of our unit linked funds and, if appropriate, to our regulator the Financial Conduct Authority.

### **Exceptional circumstances**

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.

Any action taken of this nature would be in accordance with our current Business Continuity Plan and would only be carried out where it would protect the interests of our policyholders. We would not defer transactions or suspend the unit price for any longer than is necessary to achieve this.

### **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.

## Further Information

Your policy document tells you more about your policy.

Your yearly statement tells you how your policy is doing.

Quarterly investment bulletins are available on our website:-

[www.utmost.co.uk](http://www.utmost.co.uk)

If you have any other queries, you can contact us:

You may call us on 0330 159 1530. Calls may be recorded for training and monitoring purposes.

You can email us on [contactus@utmost.co.uk](mailto:contactus@utmost.co.uk). There is also a contact us link on our website [www.utmost.co.uk](http://www.utmost.co.uk)

If you prefer to contact us via post, our address is:

Walton Street, Aylesbury, Bucks HP21 7QW

**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

# GLOSSARY

An explanation of some of the terms used in this guide.

<b>Asset(s)</b>	The investments that make up a fund. The main asset classes are shares, bonds, property and cash.
<b>Bid/offer spread</b>	The difference between the bid price and the offer price.
<b>Bid price</b>	The price of a unit applied when redeeming units allocated to you.
<b>Bond</b>	A loan to a UK or overseas company or government. This asset generates income by paying either a fixed amount of interest on the loan or an amount of interest linked to inflation.
<b>CIS</b>	Collective Investment Scheme. A fund comprising investments from multiple individuals or organisations, usually consisting of a broad range of assets and managed by a professional investment manager.
<b>Deposit Fund</b>	Usually a fund investing in money market instruments, deposits and short term loans.
<b>Derivatives</b>	Contracts usually giving a commitment, a right or an option to buy or sell assets on specified conditions, for example, on a set date in the future and at a set price.
<b>FCA</b>	The Financial Conduct Authority. An independent public body, accountable to the Treasury and to Parliament, that regulates financial services.
<b>Equity</b>	A share in a company that allows the owner of those shares to participate in any financial success achieved by that company, including capital growth and dividend payments.
<b>Fund</b>	A generic term used in this document to refer to a collection of assets such as a CIS, OEIC, Unit Trust or Unit Linked Fund.
<b>Gilts</b>	Bonds issued by the UK Government.
<b>Life funds</b>	Unit linked funds made up of investments such as stocks, bonds, cash and property. For example, our investment bonds, Whole of Life policies and regular savings plans are allocated units in Life funds.
<b>Money Market</b>	Debt instruments that are easily sold for cash, including short term bonds with maturities less than one year, short term loans and deposits.
<b>OEIC</b>	Open Ended Investment Company. A type of CIS (see above).
<b>Offer price</b>	The price of a unit when allocating units to you in respect of your policy.
<b>Pension Fund</b>	A unit linked fund generally run by an insurance company that invests money you save for retirement along with income tax paid back from the Government in relation to your contributions into the fund.
<b>Policy</b>	Your investment bond, regular savings or pension contract with us, for example.
<b>Policy terms and conditions</b>	The terms and conditions of your policy with us as contained in or with your Policy Document/Schedule, Product Brochure, Key Features

Document or other policy literature issued at the time your policy started. They describe how your policy works and any limitations which apply.

<b>Policyholders</b>	Individuals who have a Policy with us.
<b>Premium</b>	Payments made by you to pay for your Policy. These can be one-off or regular payments.
<b>Stocks/Shares</b>	The stock of a company is the equity value of the company and it is divided into shares which can be bought and sold on a stock market.
<b>Units</b>	A unit is a share of a fund. Each fund is split into a series of units. The number of units allocated to you represents your share of the fund.
<b>Unit Linked Fund</b>	Insurance funds which are a type of collective investment linked to an insurance policy.
<b>Unit price</b>	A price worked out each working day that is used to value units. A working day is Monday to Friday inclusive, excluding English public holidays.
<b>Unit Trust</b>	A type of CIS (see above).

## Appendix – Fund Charges

**Initial Charge** is the fee taken from premiums for certain policies, or charged through the bid / offer spread.

**Annual Charge** is the total annual charge for your investment fund.

Fund Name	Type	Series	Initial Charge %	Annual Charge %
Life Tax Exempt Deposit	Accumulation	60	0.00	0.73
Life Deposit	Accumulation	1	5.00	0.98
	Accumulation	3	5.00	1.23
	Accumulation	6	5.00	0.73
	Homefund	1	5.00	0.98
Life Equity	Accumulation	1	5.00	0.90
Life Fixed interest	Accumulation	2E	5.90	1.70
	Accumulation	6	5.00	0.70
Life Managed	Accumulation	2E	5.90	1.64
	Accumulation	1	5.00	0.89
	Accumulation	3	5.00	1.14
Life Property	Accumulation	2E	5.90	2.39
	Accumulation	1	5.00	1.64
	Accumulation	3	5.00	1.89
	Accumulation	1 <sup>st</sup> issue	0.00	1.27
Life Property Distribution	Distribution	3F	3.80	1.89
	Distribution	8F	3.80	2.89
Life With Profit	Original		5.90	1.54
Life With Profit	Guaranteed Growth		5.90	1.54

## Appendix – Fund Charges (continued)

Fund Name	Type	Series	Initial Charge %	Annual Charge %
Pensions Deposit	Accumulation	1	5.00	0.91
	Accumulation	2	5.00	1.66
	Accumulation	3	5.00	1.16
Pensions Equity	Accumulation	1	5.00	0.89
	Accumulation	2	5.00	1.64
	Accumulation	3	5.00	1.14
Pensions Managed	Accumulation	1B	4.762	0.89
	Accumulation	1	5.00	0.89
	Accumulation	2	5.00	1.64
	Accumulation	3	5.00	1.14
	Accumulation	4	5.00	0.54
Pension Property Accumulation	Accumulation	8F	3.80	1.36
Pensions With Profit	Accumulation	1	5.90	1.54
	Guaranteed Growth	1	5.90	1.54
	Accumulation	2	5.90	1.54
	Guaranteed Growth	2	5.90	1.54

## Appendix - Capital Units

*Some policies may include capital units, details of which are shown below.*

Fund Name	Type	Series	Initial Charge	Annual charge %
Life Deposit	Capital	1	5.00	5.23
Life Equity	Capital	1	5.00	5.15
Life Managed	Capital	1	5.00	5.14
Life Property	Capital	1	5.00	5.89
Pensions Deposit	Capital	1	5.00	4.41
	Capital	2	5.00	4.91
	Capital	3	5.00	6.91
	Capital	4	5.00	3.16
Pensions Equity	Capital	1	5.00	4.39
	Capital	2	5.00	4.89
	Capital	3	5.00	6.89
Pensions Managed	Capital	1	5.00	4.39
	Capital	2	5.00	4.89
	Capital	3	5.00	6.89
	Capital	6	5.00	6.14