

How our unit-linked funds work



**WESLEYAN
FINANCIAL SERVICES**



Why should I read this booklet?

We explain how our unit-linked funds work so that you can be confident your money is soundly managed and all of our unit-linked policyholders are treated fairly.

We have also written a more detailed guide about how we run our unit-linked funds. This 'Unit-Linked Business Principles and Practices Manual' is available on our website www.wesleyan.co.uk.

If there are any inconsistencies between this booklet and your policy documentation, the terms and conditions set out in your policy documentation will apply

If you would like this document in Braille, large print, audio tape or email please contact 0845 351 2352.

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'We', 'our' or 'Society' means Wesleyan Assurance Society

Our unit-linked funds and products

What products does this booklet cover?

This booklet covers all of our unit-linked products. These products consist of:

- Unit-linked Investment Bonds
- Regular premium/Flexible premium unit-linked Savings and Protection Policies
- Unit-Linked Pension Policies

What unit-linked funds does the Society currently manage?

- Wesleyan funds – these are the unit-linked funds initially set up by the Society and are listed below:
 - Wesleyan Life Managed Fund
 - Wesleyan Life Deposit Fund
 - Wesleyan Pension Managed Fund (series 1-4)
 - Wesleyan Pension Deposit Fund (series 1-4)

The following new funds were also set up by the Society for investment from 9 January 2012. These funds are available for both life and pensions investments.

- Wesleyan Risk Averse Fund
- Wesleyan Low Risk / Reward Fund
- Wesleyan Moderate-Higher Risk/Reward Fund
- Wesleyan Higher Risk / Reward Fund
- Wesleyan Government Bond Fund
- Wesleyan Corporate Bond Fund
- Wesleyan UK Shares Fund
- Wesleyan UK Shares Higher Risk Fund
- Wesleyan UK Smaller Companies Fund
- Wesleyan European Shares Fund
- Wesleyan North American Shares Fund
- Wesleyan Japanese Shares Fund
- Wesleyan Asian (ex Japan) Shares Fund
- Wesleyan Emerging Market Shares Fund
- Wesleyan Ethical Fund

- Medical Sickness Society funds (pre-July 1997) – these are the unit-linked funds initially set up by Medical Sickness Society (MSS) before merging with Wesleyan Assurance Society in July 1997. These funds are closed to new business and are set out below:
 - MSS Life UK Equity Fund
 - MSS Life North American Fund
 - MSS Life Far Eastern Fund
 - MSS Life European Fund
 - MSS Life Fixed Interest Fund
 - MSS Life Money Fund
 - MSS Life Managed Fund
 - MSS Pension UK Equity Fund
 - MSS Pension North American Fund
 - MSS Pension Far Eastern Fund
 - MSS Pension European Fund
 - MSS Pension Fixed Interest Fund
 - MSS Pension Money Fund
 - MSS Pension Managed Fund

You can find out which unit-linked funds your policy is invested in by looking at your latest unit-linked annual statement. Alternatively you can contact our Customer Relationship Contact Centre on 0845 351 2352.

What is not covered by this booklet?

Unitised With Profits (UWP) funds are not covered within this booklet. For details on how these operate, please refer to our booklet entitled, 'How our With Profits Fund works, for policies where premiums are used to buy units', which is available on our website www.wesleyan.co.uk.

Some of the Society's unit-linked products offer a UWP fund option, and depending on your fund choices, your policy may contain units in both unit-linked and UWP funds at the same time or at different times. If you are thinking about switching between these two types of fund, we recommend you read both booklets.

Products provided by Wesleyan Unit Trust Managers (WUTM) are also not covered by this booklet. For further information on how these investments are managed please refer to the Wesleyan Unit Trust Managers reports, which are available on our website www.wesleyan.co.uk.





Unit-linked funds – an overview

What is a unit-linked fund?

A unit-linked fund is an investment fund that is divided into units of equal value.

The value or price of the unit depends on the value of the underlying assets of the unit-linked fund.

'Asset' is a phrase used to describe the type of investment. For example, assets can be shares, fixed interest securities, property or cash.

When policyholders invest their money into the fund, the amount of their premium (adjusted by the allocation rate) is used to buy units from the Society at a price known as the 'offer price'.

When policyholders cash in their units or their policy has matured, the units (adjusted for any bonuses or charges) are sold back to the Society at a price known as the 'bid price'.

'Allocation rate' is a type of charge that we may make on your policy. For example, if you invest £100 and there is a 95% allocation rate, £95 is used to buy units at the offer price. The remaining £5 is used to cover expenses associated with your policy.

Some allocation rates can however be used to apply bonuses to your policy. For example, if you invest £100 and there is a 101% allocation rate, we will use £101 to buy units at the offer price.

Your policy documentation will specify the levels and types of allocation rates applying to your policy.

Please remember that the value of unit-linked funds can go down as well as up, therefore the value of your policy is not guaranteed.

What are the underlying assets?

Underlying assets are the investments that determine the price of the units. The mix of assets underlying a unit-linked fund varies from fund to fund and may include shares, fixed interest securities, property and cash. The fund may also invest in collective investment schemes, such as unit trusts and open-ended investment companies (OEICs).

The mix of assets in any one fund is based on investment guidelines as detailed in the Society's Statement of Investment Principles, a copy of which is available on request.

An internal or external investment manager looks after the mix of assets. Fund fact sheets provide information on the mix of underlying assets and the performance of the funds. Fund factsheets for Wesleyan Assurance Society unit linked funds are available on our website www.wesleyan.co.uk.

How is the value of my policy calculated?

The number of units allocated to your policy is multiplied by the bid price of the units at the date we value your policy. When you cash in your units or your policy matures, this value may then be adjusted for benefits such as guarantees or bonuses, or adjusted for charges such as surrender penalties if you are cashing in your policy early. These benefits and charges will be outlined in your policy documentation.

Unit prices – how they are calculated

How are bid and offer prices decided?

Each working day, the value of the underlying assets is divided by the number of units within the unit-linked fund. This figure is then adjusted to allow for initial charges and rounding to give the bid and offer prices.

'Rounding' refers to the way in which we round the bid and offer price of a unit.

For example, if we were rounding to the nearest 0.1 pence, 104.18 pence would be rounded up to 104.2 pence. Similarly, 104.13 pence would be rounded down to 104.1 pence.

What is the difference between bid and offer prices?

For most of our funds, the offer price will exceed the bid price by 5%. This difference is called the bid/offer spread (or initial charge).

This means that the price at which we sell units to you (the offer price) will be 5% higher than the price at which you could sell the units back to us (the bid price) at that point in time.

However, for series 2, 3 and 4 in the Wesleyan Pension Managed Fund and Wesleyan Pension Deposit Fund, there is no bid/offer spread. Therefore, for these funds, the bid and offer prices are the same.

How are bid and offer prices rounded?

For **Wesleyan funds** bid and offer prices are rounded to the *nearest* 0.1 pence.

For **Wesleyan 'new' funds (listed on page 3)** and **Medical Sickness Society** funds the bid price is always rounded *up* to the higher 0.1 pence and the offer price is always rounded *down* to the lower 0.1 pence.

Who has responsibility for unit pricing?

The Board of Directors of the Society is ultimately responsible for oversight and management of the Society's unit-linked business. However, the day-to-day oversight is delegated to the Society's Chief Actuary.

Certain responsibilities are also carried out by the Society's Investment team and Valuation Actuary.

The Society's Internal Audit department also monitor and review the processes used to ensure we are treating unit-linked policyholders fairly.

What are our key principles when calculating unit prices?

Our overall principle in calculating unit prices is to ensure that we treat all policyholders fairly. In particular we aim to:

- Provide a fair valuation of the underlying assets of a unit-linked fund;
- Charge appropriate amounts for expenses associated in managing the fund;
- Provide a fair price to policyholders on purchasing and selling units; and
- Use a fair and transparent method of unit pricing.

What is the pricing basis?

The 'pricing basis' refers to whether we use an 'expanding' or 'contracting' basis to value the underlying assets.

When a fund is **expanding**, there are more units being sold by the Society to policyholders than are being cashed in by policyholders, so the unit-linked fund is getting larger.

If a fund is growing, then we will normally use an 'expanding basis' to value the underlying assets. This means the valuation will reflect the cost of buying the underlying assets in the market.

When a fund is contracting, there are more units being cashed in by policyholders than are being sold by the Society to policyholders, therefore the unit-linked fund is getting smaller.

If the fund is getting smaller, we will normally use a 'contracting basis' to value the underlying assets. This means that the valuation will reflect what could be received if the underlying assets were sold in the market.

The valuation of a fund is typically higher on an expanding basis than on a contracting basis. One key reason for this is because the costs associated with buying assets in the market are typically higher than those associated with selling them. Therefore, the unit prices calculated on an expanding basis are normally higher than those calculated using a contracting basis.

When does the pricing basis change?

Your policy value may go up or down as a result of a change in the pricing basis. In practice however the effect of this change is smoothed over a period of time.

Any change between an expanding and contracting basis for a particular unit-linked fund will be based on long-term trends rather than short-term fluctuations. Therefore frequent changes of basis are unlikely. The Society's Head Actuary will determine when a change of basis should be made.

How often are units in the fund priced?

All of the Society's unit-linked funds are normally valued and priced each working day.





How do we decide which day's prices to use for your transaction?

The unit price used when allocating your premiums or when valuing your policy at surrender or maturity will vary depending on the type of policy and transaction. Please refer to your policy documentation for further details.

How are the underlying assets valued?

The underlying assets are valued using market prices for those assets at the time we conduct the valuation. External companies are used to ensure these valuations are fair and reasonable. The market prices used will take into account the pricing basis of the fund.

What if the Society makes a pricing error?

Daily checks are in place to ensure any errors (e.g. errors arising from an incorrect valuation of an underlying asset) are detected before they can have an impact on policyholders. However in the event that a pricing error does occur we will investigate it and endeavour to correct it as soon as reasonably practicable. In most circumstances we will compensate policyholders or the fund if either has suffered a material loss.

We generally consider a material loss to be 0.5% or more of the correct unit price. Policyholders who have suffered a loss of more than £10 arising from a pricing error will normally be compensated.

Charges and taxes

What charges are applied to a unit-linked fund?

Charges applied to the fund vary for different product types and fund series. These can include:

- Annual Management Charges (AMC) to cover the day-to-day management expenses of the fund; and
- Initial charges, more commonly known as the bid/offer spread. This means that on any day, the price at which we sell units to you will be higher than the price at which you can sell them back to us.

For further details, please refer to your policy documentation.

Are there any additional product charges applied to my policy?

For some policies, we may take charges from your premiums (such as via an allocation rate or policy fee), so the amount used to purchase units in your chosen funds will be lower than the premium you have paid.

We may also take charges for life insurance cover or other similar benefits. All charges are outlined in your policy documentation.

How are unit-linked funds taxed?

An underlying asset may provide investment returns in the form of income and/or capital gains or losses. These returns may be subject to Corporation Tax on income and capital gains respectively. Generally any tax payable or potentially payable from a unit-linked fund will reduce the bid and offer prices.

- **Corporation Tax on income** – Investment income from the underlying assets (other than that from UK equities and most non-UK equities) is taxed at the current lower policyholder rate of tax. Investment income from UK equities and most non-UK equities is not subject to any further tax.
- **Corporation Tax on capital gains** – A capital gain occurs when an underlying asset is sold at a higher price than it was bought (after increasing the purchase price of the asset in line with inflation). Tax is due on the capital gain at the current lower policyholder rate of income tax.

In order to treat all policyholders fairly, it is necessary to make an allowance within the unit price for expected future Corporation Tax payments on assets of the unit-linked fund that have increased in value but have not yet been sold (unrealised capital gains).

In practice a certain amount of approximation is necessary to make a fair and appropriate allowance on a daily basis for unrealised Corporation Tax. Unit-linked funds held for pensions business are not subject to tax on income or capital gains. However, they are unable to reclaim the tax credit associated with investment income from UK equities and most non-UK equities.

How do we treat capital losses?

A capital loss occurs when an underlying asset of a unit-linked fund is sold at a lower price than it was bought for. In certain circumstances, capital losses can be used to offset capital gains and hence reduce the amount of Corporation Tax payable by the unit-linked fund.

Will I have to pay additional tax when I cash in my units?

We have only covered how our unit-linked funds are taxed in this booklet. Depending on your personal tax status and the type of your policy you may or may not be liable to pay further tax when you cash in your units.

For further information you should contact your Financial Consultant to discuss your personal circumstances.

This is how we understand tax rules now. They may change in the future.

Discretionary powers of the Society

Does the Society own any of the units in the unit-linked funds?

At any point in time there may be some 'spare' units in a unit-linked fund because either:

- The units have not yet been purchased by policyholders or;
- The Society is maintaining a small balance of 'spare' units to achieve flexibility (e.g. to keep the buying and selling costs of a unit-linked fund to a minimum).

The number of 'spare' units in each unit-linked fund is monitored to ensure such levels remain appropriate. The Society earns the same return on these units as you do.

What discretionary powers does the Society have?

Appropriate management of unit-linked funds will at times mean that discretionary actions are necessary. The Society may therefore choose to exercise discretion in the management of its unit-linked funds in the following key areas:

- Changes to fund charges in unit pricing – except where policy conditions prohibit this;
- Change of pricing basis between expanding and contracting approaches;
- Changes to the investment policy of any fund;
- Response to adverse events or significant movements in asset prices; or
- Allowances for taxation and buying and selling costs.

Use of discretion may impact on the value of your policy or the way that we manage our unit-linked funds. However the primary consideration in exercising discretion is that we treat all customers fairly.

Exceptional circumstances

If a significant adverse external event results in the unavailability of market values for some underlying assets or raises questions about the appropriateness of those values, we may take action to protect the interests of all policyholders in a unit-linked fund.

Actions that may be taken include, but are not limited to:

- Delaying transactions with policyholders;
- Temporary suspension of unit price;
- Changing the asset mix of a unit-linked fund;
- Re-pricing on a particular day.

For example, on 11 September 2001, as a result of the attack on the World Trade Center asset values were either unavailable or extremely volatile. In this situation, we temporarily suspended pricing and recommenced once markets reopened and asset values were available.

These practices will only be used when necessary to secure policyholder protection and will be used to the minimum extent possible.

Further information

Where can I find up to date unit prices?

You can obtain current unit prices by calling the Customer Relationship Centre on **0845 351 2352** or on our website www.wesleyan.co.uk.

How can I check the value of my investment?

If you want to know the current value of your policy please call the Customer Relationship Centre on **0845 351 2352**.

What do I do if I have a complaint?

At Wesleyan, we do everything we can to ensure all our customers get the best possible service. If however you are unhappy with any aspect of the service you have received from the Society or one of our representatives, please tell us.

You can obtain details of our complaints procedures by calling the Customer Relationship Centre on **0845 351 2352** or on our website www.wesleyan.co.uk.

Where can I find out more?

If you have any questions on this booklet, or would like further information, please contact your Financial Consultant. To book an appointment with your Financial Consultant, please call **0800 058 2965**. Lines are open Monday to Friday, 8.30am to 5.30pm.

Each year we publish an annual report which explains how we have acted to manage the fund during the year. We have also written a more detailed guide about how we run the fund. This is called 'Principles and Practices of Financial Management (Wesleyan Open Fund)'. You can get a copy of these by calling **0800 058 2965**, or from our website www.wesleyan.co.uk.





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