

*This is all about*

# Understanding unit-linked funds

*with Standard Life*



**Hello.**

The purpose of this guide is to explain how Standard Life's unit-linked funds work and our current approach to managing them. It also outlines the steps we take to treat our customers fairly and manage their different interests.

The guide will be useful to you if you're thinking about investing, or have already invested, in any unit-linked fund through a product from Standard Life.

Your plan may invest in a range of investments, including investments based on stocks and shares, which carry different levels of risk. The value of your investment can fall as well as rise and you may get back less than you pay in.

If there are differences between your plan documentation and this guide, the terms and conditions as set out in your plan documentation will apply.

Key terms are explained in the glossary on page 13. If you are unsure about any of the details in this document, we recommend that you speak with your financial adviser. There may be a cost for this.

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# What types of unit-linked funds are there?

## Which funds does this guide cover?

The funds we'll be referring to are the unit-linked funds, excluding with profits funds, which are offered on our products. The guide applies to unit-linked funds offered by Standard Life Assurance Limited (SLAL) in the UK, but excludes those offered by Standard Life International Limited (SLIL).

If you want more details on our with profits funds, these are covered in the with profits guide which can be found at [www.standardlife.co.uk](http://www.standardlife.co.uk)

## About unit-linked funds

### What is a unit-linked fund?

A unit-linked fund is a fund that is linked to a plan issued by an insurance company that allows you to combine your money along with other planholders. This gives you the opportunity to invest in a much wider spread of investments than if you were to invest on your own. Along with the other planholders who invest in a fund, you share in the investment performance of the assets held within the fund.

### What is an asset?

Asset is a term that's used to describe an item which is owned and has a value. Examples of investment assets are company shares, corporate bonds, property and cash.

### What does 'unit-linked' mean?

A unit-linked fund is divided into units of equal value. The value, or price, of each unit depends on the value of the assets of the unit-linked fund. The unit price determines the number of units you receive when you invest money in the fund, and the sum you receive when you redeem your units.

The value of the assets determines the price of the units. The mix of assets held in a unit-linked fund varies from fund to fund, and may include direct or indirect investments.

A direct investment is where the fund holds the actual asset, such as company shares or an actual property. An indirect investment is where the fund holds assets by investing in a collective investment scheme.

### What is a Collective Investment Scheme?

A Collective Investment Scheme (CIS) is an arrangement which allows people to invest money along with other people. It enables investors to hold a wider range of assets than they would otherwise be able to invest in alone. CISs are usually managed by a fund management company which makes decisions on the investments for the CIS. Examples of CISs are Unit Trusts and Investment Trusts.

### What types of unit-linked funds are there?

Standard Life's unit-linked funds include:

#### Standard Life Funds

Standard Life Funds are unit-linked funds where Standard Life is responsible for the investment decisions within the individual funds.

#### External Fund Links

External fund links (EFLs) are Standard Life unit-linked funds which invest in a unit-linked fund or a CIS which is not managed by SLAL. EFLs include funds operated by Standard Life Investments and also funds external to Standard Life. We make EFLs available to our customers to give them a wider choice of investment options.

### Want to know more about our funds?

To read and download our range of fund factsheets, please visit [www.standardlife.co.uk](http://www.standardlife.co.uk)

These fund factsheets are written for people who are familiar with investment terminology. An explanation of some of the key terms used in this document can be found in the glossary on page 12. Please contact your financial adviser if you need any further explanation of the terms used.

# How does Standard Life calculate the value of its funds?

## How do we value the assets?

We aim to use up-to-date asset values to value our unit-linked funds. We calculate a value for most of the assets in each fund on a daily basis. For example, if an asset is listed on a stock exchange, we use the quoted price to value it. However, for some assets, such as land and buildings, the value is based on independent periodic valuations.

We combine the value of all the assets within each fund to get a total asset value for the fund. Any income due is added to the value of the assets and any anticipated costs and taxes are allowed for to calculate the fund value.

The value placed on the assets within each fund also depends on whether the fund is expanding in size or contracting.

### What is an expanding or contracting fund?

When a fund is **expanding**, more units are being bought by planholders than are being sold.

When a fund is **contracting**, more units are being sold by planholders than are being bought.

If a fund is expanding, we generally create additional units in the fund and invest in more assets. We work out the fund value based on the price at which we can buy into these assets, allowing for any costs or taxes associated with the purchase of those assets. In this instance, we say that the fund pricing is on a 'creation' basis.

If a fund is contracting we generally cancel units in the fund, which involves assets being sold. We calculate the fund value based on the selling price for these assets, and an allowance for any costs or taxes associated with selling them. In this instance, we say that the fund pricing is on a 'cancellation' basis.

In general, the value placed on an individual fund if its pricing is on a creation basis will be higher than if it was on a cancellation basis.

We normally take a longer-term view in making a decision about whether a fund is expanding or contracting. By doing this we ensure that planholders are not normally impacted by unexpected short-term investment activity of other planholders. When making our decision, we take into account the recent past and look at expectations for the near future. We review all our funds regularly in this way, usually on a monthly basis.

If significant transactions occur, we may change the basis on that day to make sure that we treat all investors fairly.

*At Standard Life, we try to make sure that we price our units in a way that is fair to all our customers – whether they're buying units, selling them, or staying invested in the fund.*

# How are the prices of the units calculated?

## How are unit prices calculated?

Standard Life normally calculates the value of its funds each working day. We then calculate a unit price for each fund, based on the valuation of all the assets within it.

We take the fund value for each of our unit-linked funds and divide this figure by the number of units within the fund to obtain a unit price. In the process, we allow for charges and rounding, as outlined in the plan provisions, to give us the price for that day.

### What is rounding?

Rounding refers to the way we adjust the price of a unit up or down. When we apply rounding to our unit prices this does not significantly affect the price of the units. Prices are normally rounded by no more than 0.1 pence.

## When are units priced?

We usually value our unit-linked funds at a set time (or pricing point) on each working day. We use these valuations to calculate the unit prices.

The unit prices calculated at each pricing point are normally published on our website the next working day.

In exceptional circumstances, we may need to value funds and calculate unit prices at a different time or in a different way. For example, if a significant event occurs, such as stock market crashes, computer systems failures or extraordinary events, we will take action to price our funds appropriately under those circumstances.

# How does Standard Life calculate the value of my investment?

## How is the value of my plan calculated?

The value of your plan on a given date is the number of units within your plan multiplied by the price of those units on that date. This is only indicative of the value on a given date and is not a guarantee of any potential cash in value.

## At what price will I buy or sell units?

When you buy or sell units, the price you pay or receive for your units will not necessarily be the price published on the day we receive your instruction. For example, if you switch between two funds, the unit prices used will normally be those published two days after we have received your instruction. The unit price used for other transactions will depend on the type of transaction being carried out. Details of the cut-off times for transactions are available by contacting us.

Standard Life can delay cancelling your units if we believe that this will ensure fairness between customers remaining in the fund and customers leaving the fund. We can delay a sale of units for up to one month or, where the units are invested in a fund that invests in buildings or land, for up to six months. We can delay a sale of units for longer periods if the sale involves an EFL and the external manager delays the cancellation. If we delay a sale of units, the unit price used for the transaction will be that which applies on the effective date the sale actually takes place.

## How can I check the value of my investment?

If you want to check the current value of your investment, please register on our website at [www.standardlife.co.uk](http://www.standardlife.co.uk)

You can also check your annual statement to see the number of units you own in each fund and the total value of your investment at the date of the statement.

*You can access up-to-date information on your plan online by registering your details at [www.standardlife.co.uk](http://www.standardlife.co.uk)*

# What types of charges can be applied?

## Annual Management Charge

Unit prices of most unit-linked funds are subject to an Annual Management Charge (AMC). The AMC is allowed for in the calculations whenever we calculate a unit price. Details of the AMCs which apply to our funds are available in your plan documentation or by contacting us.

The daily AMC is calculated by multiplying the current day's value of the unit-linked fund by the AMC rate and dividing by the number of days in the year. For Standard Life Funds and EFLs, allowances are made to avoid double-charging.

## Initial Charges

Initial charges are applied to some unit-linked funds as part of the unit price calculation. Where buying and selling unit prices for a fund are equal, there is no initial charge.

## Other charges and expenses

Our contract with you sets out the charges which may be applied to your plan. Other charges and expenses, in addition to the AMC and any initial charges, may be applied. These may include:

- expenses, taxes (including income and corporation tax), duties, and other charges for buying, managing, maintaining, valuing and selling assets
- interest on any money that we have borrowed for the fund
- any other expenses, taxes, duties and charges arising from our operation of the fund
- part or all of any tax charge or other charge on us.

In addition, where the Standard Life unit-linked fund links to a Fund of Funds (a fund that holds other underlying funds as its investments), the additional expenses may also include the cost of managing the underlying funds.

Where these expenses arise within the fund they have been taken into account in the calculation of the unit price. The charges and additional expenses are not guaranteed. They are regularly reviewed and may be changed in the future.

## Unit Allocation

For certain plans we invest a proportion of your investment. This is called the allocation rate. If an allocation rate is applicable to your plan, your plan documentation will outline what allocation rate applies to your plan.

*See page 12 for a full explanation of the key investment terms used in this brochure.*

# How are funds taxed?

## How are funds taxed?

The basis for allowing for tax in the pricing of unit-linked funds is intended to ensure fairness between planholders, shareholders, different unit-linked funds and different generations of planholders. We take account of UK tax legislation and any overseas tax regimes which apply to the investments held in the unit-linked funds.

Allowance for tax is applied differently depending on the type of fund that you hold – whether it's a pension or non-pension fund.

## UK non-pension funds

The funds are taxed in respect of the taxable income and gains that arise based on the planholder tax rate. This tax charge is taken into account in the pricing of funds with each fund being treated on a standalone basis. The funds are also liable for any appropriate taxes on the purchase and sale of assets, and income from overseas assets.

## Gains

Tax is charged based on the planholder tax rate on gains that arise through an increase in the value of the unit-linked fund assets prior to sale of those assets ('unrealised gains') or upon the sale of an asset ('realised gains'). The gains may include an allowance for inflation which can reduce the tax payable on certain assets.

## Losses

The extent to which funds allow for losses arising as a result of a reduction in the value of fund assets depends on the source and nature of the losses.

## UK pension funds

UK pension funds are not liable to UK tax on their income or gains, except for tax on dividends received from UK equities. However, they might also be liable for tax on income earned overseas. They will receive credit for tax for certain income from CIS holdings. The funds are also liable for any appropriate taxes on the purchase or sale of assets.

## Personal taxation

### How will tax affect your investment?

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

### What is a chargeable gain?

A chargeable gain can occur when you cash in your plan and is generally the amount by which the value of a plan exceeds the amount paid into it. Chargeable gains can also arise when the amount withdrawn from certain plans exceeds certain allowances. A chargeable gain relating to a plan may be subject to income tax. Non-pension plans are exempt from Capital Gains Tax unless the plan is sold to someone else.

Tax and legislation are likely to change. The information given in this guide is based on Standard Life's understanding of law and HM Revenue & Customs practice at November 2010.

# What discretion does Standard Life have in operating its unit-linked funds?

## Use of discretion

We try to make sure that we use our experience and judgement to price our units in a way that is fair to everyone invested in a fund. This is why, from time to time, we may use our discretion in the management of our unit-linked funds. Here are some occasions when we may decide to use discretion when we make decisions about the way we run and manage our funds.

## Significant events

As we mentioned earlier, if a significant event occurs, we will ensure our funds are priced appropriately under those circumstances. This might include, but is not limited to:

- temporary suspension of fund trading
- suspension of unit pricing
- change in investment strategy
- use of indexed prices
- change to the pricing point.

## What are indexed prices?

Where there are significant movements in the financial markets after our normal pricing point, we may amend the unit prices applicable to that day. We do this by changing the unit prices through movements in an appropriate index, for example the FTSE All-Share Index, which we have chosen.

## Fund launches, closures and mergers

In order to increase customer choice we may sometimes launch new funds to give our customers more investment opportunities.

For commercial or practical reasons, or to respond to market needs, Standard Life may stop further planholder investment in an existing fund.

If a fund is closing, planholders will normally be advised in advance and given time to switch to an alternative fund. If this is not possible, Standard Life will switch investments to a fund that in our opinion most closely matches the wound-up fund. We will not make any charge for switches if this happens.

## Investment objectives

The investment objectives for the funds may be adjusted at any time. Where possible, planholders will normally be advised of any significant change to the investment objective in advance.

## Investments

We may borrow, use the assets of funds as security, and may reinsure all or part of a fund where appropriate, in accordance with any applicable guidance and regulation.

## Stock Lending

As part of our investment strategy we may lend some assets of these funds to selected financial institutions, with the objective of enhancing the returns to the fund. In certain circumstances, for example if the institution encountered financial difficulties and was unable to return the asset, the fund could suffer a loss. We use a number of controls, such as obtaining security from the borrower and monitoring their credit rating, in order to reduce the risk to the fund.

## Unit holdings

We may hold a small value of holdings in the unit-linked funds, in addition to those owned by our planholders, to enable us to efficiently manage the operation of the funds. We manage our unit holding within limits set on the number of units we may own.

## Pricing point

We have the discretion to set the point in the day that funds are priced, and to vary the frequency of pricing.

## Annual Management Charges

We may increase annual management charges:

- to reflect increases in overall costs
- where assumptions used to set the charges have changed
- where the criteria on which special terms were agreed have not been satisfied or
- to cover any other circumstances permitted by our plan provisions.

We will also take account of any relevant regulations when changing annual management charges.

# What steps does Standard Life take to manage my investment fairly?

You can be confident that your money is being managed by a professional team of investment experts and that you'll be treated fairly. The Board of Directors of Standard Life Assurance Limited (SLAL) is ultimately responsible for the supervision and management of the unit-linked funds sold through SLAL.

These responsibilities include making sure your chosen funds are managed consistently in accordance with fund guidelines, that where any discretion is applied it is done so fairly, in line with our policy and our commitment to our customers.

## **Pricing errors**

A pricing error is a material mistake in any published unit-linked fund price where the mistake was as a result of us not following our pricing policy or our normal pricing processes. A pricing error may also occur if we receive incorrect information from external third parties. All identified pricing errors will be recorded and assessed for significance and whether there has been a systemic error. Any customer complaints will be dealt with in line with Standard Life's standard complaint procedure.

## **Correction of pricing errors**

We make every effort to calculate prices accurately, and do not publish any prices until we have thoroughly checked them. If a material error does occur, we'll do everything we can to correct it as soon as possible and we will investigate any potential financial impact.

We will normally recalculate the correct prices for an error over 0.5% on any given day.

We aim to ensure that planholders are put back in the position that they would have been in had the error not occurred, subject to de minimis limits. This may be done by allocating units to, or removing units from, a plan, or by making cash payments if the contract has terminated.

## What if I have a complaint?

We are committed to providing all our customers with the best possible service. If, however, you aren't satisfied with any aspect of our service, please let us know. We can send a leaflet summarising our complaint handling procedures on request.

Please refer to your plan documentation for the appropriate area to contact. You will also find contact details on our website [www.standardlife.co.uk](http://www.standardlife.co.uk)

We've included a glossary of common investment terms used within this guide overleaf. If you're still unsure about any of the investment terminology, you should speak to your financial adviser who will be happy to explain them to you.

# Glossary

## Key investment terms explained

**Collective Investment Scheme** – a collective investment scheme (CIS) is an arrangement which allows people to invest money along with other people.

**Contracting Fund** – a contracting fund is a unit-linked fund which in general, over a short to medium term period, has customers selling more units in total than are being bought.

**De minimis limit** – a small, or minimal, value below which a change will not be made.

**Double-charging** – double-charging is where a fund is charged costs on two separate occasions. This might occur, for example, when a fund in which a customer invests in applies a charge, but the assets that fund holds also have charges applied.

**Expanding Fund** – an expanding fund is a unit-linked fund which in general, over a short to medium term period, has customers buying more units in total than are being sold.

**External Manager** – an external manager is a fund manager who runs a fund which is offered to clients directly by that fund manager or to our customers through a unit-linked fund. External managers are fund management companies, and these include Standard Life Investments.

**Independent Periodic Valuation** – this is a valuation which is carried out on an asset on a regular, but not daily, basis. The valuation is carried out by a person or company which has no beneficial interest in the asset.

**Investment Trust** – an Investment Trust is a CIS which is run as a company. The sole interest of the company is to buy, sell and hold shares.

**Plan** – a plan is a contract which a customer holds with a life insurance company. The term plan within this document also represents, where applicable, a policy.

**Planholder** – a planholder is the owner of a plan, but not necessarily the beneficiary of the plan. The term planholder within this document also represents, where applicable, a policyholder.

**Planholder Tax Rate** – the planholder tax rate is the base tax rate which is applicable to planholders. This rate is currently 20%.

**Stock Exchange** – a stock exchange is a market which provides the facility for traders to buy and sell shares and other securities

**Suspension of Unit Pricing** – suspension of unit pricing is where a unit price is not calculated on a particular day, or period of days. A unit price will later be determined for the day, or days, when pricing was suspended but there may be a delay in this being carried out.

**Suspension of Unit Trading** – suspension of unit trading is where planholders are stopped from buying or selling units in a unit-linked fund for a particular day, or period of days.

**Unit Trust** – a unit trust is a CIS which is held by trustees on behalf of investors.

**Pensions**  
**Savings**  
**Investments**  
**Insurance**

If you have any questions on this booklet, or would like further information on unit-linked funds, please speak to your financial adviser, or contact the phone number shown on your plan documentation. Alternatively, please refer to the contact us section of our website to find details of how to get in touch with us.

You can visit our website at

**[www.standardlife.co.uk](http://www.standardlife.co.uk)**