



# Understanding unit-linked funds

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The purpose of this guide is to explain how Standard Life's unit-linked life and pension 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. When we refer to 'Standard Life' we mean, Phoenix Life Limited, trading as Standard Life.

Within Standard Life, the importance of putting customers at the heart of what we do has long been part of our culture and practices and is actively championed by our senior management.

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 go down as well as up and may be worth less than you paid 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 guide, we recommend that you speak to a financial adviser. There may be a cost for this.

#### **Which funds does this guide cover?**

The funds we will be referring to are the unit-linked funds (sometimes also referred to as insured funds), excluding with profits funds, which are offered on our products. The guide applies to unit-linked funds offered by Standard Life in the UK, but excludes those offered by Standard Life International.

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# What types of unit-linked funds are there?

A unit-linked fund, also referred to as an insured fund, is a fund that is linked to a plan issued by an insurance company which 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.

Please note that mutual funds are not covered in this guide.

## 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 sell your units.

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

Each fund you can choose to invest in may have a different mix of assets and different level of risk.

Units represent the way that a fund is split to identify a value that we can attribute to each customer's holding. Standard Life is the legal owner of these units.

### 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 are direct and 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 investors to invest money along with other investors. It enables them to hold a wider range of assets than they would otherwise be able to invest in alone. CISs are usually managed by fund management companies, which make the investment decisions. Examples of CISs are unit-linked funds themselves, unit trusts, investment trusts and open-ended investment companies (OEICs).

## What types of unit-linked funds does Standard Life offer?

Our unit-linked funds include:

### Standard Life funds (Internal funds)

These are unit-linked funds where Standard Life is responsible for the investment decisions.

### External fund links

External fund links (EFLs) are Standard Life unit-linked funds which invest in a re-insured unit-linked fund or a CIS which is not managed by Standard Life. EFLs include funds operated by Aberdeen Standard Investments and also funds managed outside the Standard Life Aberdeen group. We make EFLs available to our customers to give you a wider choice of investment options. The investment performance of the Standard Life version of a fund will be different from what you would see if you invested in the underlying fund directly. There can be several differences including: charges, cash management, tax and the timing of investing.

## Want to know more about our unit-linked funds?

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

The fund factsheets are written for people who are familiar with investment terminology.

If you are a member of a group pension scheme, your scheme mini-site will also contain useful information on our fund range.

An explanation of some of the key terms used in this document can be found in the glossary on page 13. 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?

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.

For EFLs, we will use the prices provided by the external fund manager.

We combine the value of all the assets within each fund to get a total asset value for the fund. Values chosen seek fairness between all customers. 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. Funds investing in asset classes with high transaction charges (eg property) give rise to larger differences between the creation and cancellation basis.

A typical transaction charge for an equity fund is approximately 0.20% to 1.20%. For a property fund, due to higher transaction costs, (including Stamp Duty) the cost could be 7% or higher in exceptional circumstances.

We normally take a longer-term view when deciding 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.

Customers should expect to enter a fund on a creation basis and leave on a cancellation basis, but they may transact on a more favourable basis depending on what other transactions take place on the day. If significant transactions occur, we may change the basis on that day to make sure that we treat all investors fairly. Our aim is to ensure customers who generate transaction costs pay those costs and not other customers.

**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.**



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)

# How are the prices of the units calculated?

We normally calculate the value of our 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. We allow for charges and rounding, as outlined in the terms and conditions, 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.

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, and in order to ensure fairness to all our customers, 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 plan?

The value of your plan on a given date is the number of units allocated to 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, in line with your Terms and Conditions. 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.

We can delay cancelling your units if we believe that this will ensure fairness between customers remaining in the fund and customers leaving the fund. For Standard Life funds, 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 External Fund Link (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 plan?**

If you want to check the current value of your plan, 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 hold in each fund and the total value of your plan at the date of the statement.



# What types of charges can be applied to unit-linked funds?

## Fund management charge

Unit prices of most unit-linked funds are subject to a fund management charge (FMC). The FMC is allowed for in the calculations whenever we calculate a unit price.

You can find details of the FMCs which apply to our unit-linked funds in your plan documentation or by contacting us.

The daily FMC is calculated by multiplying the current day's value of each fund by the yearly FMC rate, and dividing by the number of days in the year. For all our unit-linked funds which link to EFLs we make allowances to avoid double charging of FMCs.

## Initial charges

Initial charges are applied to some unit-linked funds as part of the unit price calculation. Where a fund's creation and cancellation prices are the same, 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 FMC and any initial charges, may be applied. These may include:

- additional 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
- performance fees.

In addition, where a Standard Life unit-linked fund links to, or is 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. Changes could result in both increases or decreases in charges.

## Unit allocation

For certain plans we invest a proportion of the amount you invest into the plan. This is called the allocation rate. If an allocation rate is applicable to your plan, your terms and conditions will outline what allocation rate applies to your plan.



**See page 13 for a full explanation of the key investment terms used in this brochure.**

# How are unit-linked 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.

In calculating the tax part of a fund price, we treat each unit-linked fund individually on a stand-alone basis. The tax position of one unit-linked fund has no impact on the tax position of another.

Managed funds and blended funds are not calculated on a stand-alone basis. The tax on them is based on how much is held in each of the underlying funds, with no offsetting between gains and losses in the underlying parts.

The sum of the individual tax positions on all the funds may be different to the actual tax paid by Phoenix Group Holdings because all tax positions across the company are combined together, including unit-linked, with profits and non-linked business such as annuities.

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 taxable losses arising as a result of a reduction in the value of fund assets depends on the source and nature of the losses and the future expected recoverability.

## UK pension funds

UK pension funds are not liable to UK tax on their income or gains. However, they might 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 (non-pension funds)

### 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.

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 September 2020.

# 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 and in line with regulations and industry best practice, 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. These decisions may impact your investment.

## 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
- use of indexed prices
- change to the pricing point.

## External fund link (EFL) performance

For a variety of reasons, the performance of our EFLs will not exactly mirror the performance of the underlying fund. The timing of investment, minimum deal sizes, dealing conditions, small cash holdings, and pricing basis used will have an impact on the EFL performance when compared to the underlying fund.

## 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 to ensure fairness to customers.

## 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, we may stop further planholder investment in an existing fund, or close the fund altogether. We may also merge a fund with another fund.

Where two funds are merging, or a fund is closing altogether, planholders will normally be advised in advance and given time to switch to an alternative fund. If this is not possible, in most instances, we will switch investments to a fund that in our opinion most closely matches the merged or wound-up fund. We will not apply a switch charge if this happens but the pricing basis applied may result in fund transition costs being incurred.

## Pricing basis

We will decide the Creation or Cancellation pricing basis for each fund to ensure the fairness of customers joining, leaving and staying in the fund. Details on how we apply pricing bases are set out in the 'How does Standard Life calculate the value of its funds?' section on page 3.

### **Investment objectives**

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

### **Investment discretion**

For Standard Life funds, 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.

External fund managers may use assets of their funds in this way and are responsible for their own controls and compliance with applicable regulations and guidance.

### **Stock lending**

For Standard Life funds, 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. Managers of External Fund Links (EFLs) may also lend assets and are responsible for their own controls.

### **Standard Life unit holdings**

The number of units Standard Life holds in the unit linked funds may vary from the number of units allocated to customers to enable us to efficiently manage the operation of the funds. Standard Life may hold fewer units than those allocated to customers, where the difference relates to the value of some charges that will be taken in future.

### **Pricing point**

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

### **Fund management charges**

We may increase fund 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 the terms and conditions.

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

# What steps does Standard Life take to manage my plan 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 is ultimately responsible for the supervision and management of the unit-linked funds sold through Standard Life.

These responsibilities include making sure your chosen Standard Life funds are managed in line with regulations, appropriate guidance, plan documentation and expectations set in fund literature. We behave with our customers' best interests in mind guided by our commitment to our formal Treating Customers Fairly policy. Where we apply any discretion it is done so fairly and reflects both our Terms and Conditions and the expectations we set out in customer literature.

## Pricing errors

A pricing error is a mistake in any published unit-linked fund price that Standard Life considers to have been caused by a failure by Standard Life or, where relevant, any applicable third party, to correctly apply processes at the point of pricing calculation. 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.

## Serial switching

We monitor all customer activity on our unit-linked funds and where we think that a customer's activity has the potential to cause detriment to other customers we may need to consider imposing restrictions.

## 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 will 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% of the fund price 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.

## Applying good governance

Good governance is embedded in our culture. It involves working to ensure that funds perform in line with our expectations, and with those we set for customers. Our governance process has two key components – we look both at the fund groups which manage our unit-linked funds and at the funds themselves. The key aims of our governance process are to check that:

- the fund groups which manage our unit-linked funds meet our requirements
- there are no significant structural or organisational problems that could affect performance
- we have a thorough understanding of the funds that we're making available to customers
- funds are being run in line with their stated objectives (where applicable) and in a way that's compatible with our operational requirements
- customers are treated fairly.

# What if I have a complaint?

## Service

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)

## Compensation

The Financial Services Compensation Scheme (FSCS) has been set up to provide protection to consumers if authorised financial services firms are unable, or likely to be unable, to meet claims against them.

It is important to note that different limits apply to different types of investment. In some circumstances, you might not receive any compensation under the FSCS.

The availability of compensation depends on:

- The type and structure of the investments you choose within your product
- Which party to the contract is unable to meet its claims, whether Standard Life or the underlying asset provider, for example: deposit taker, fund manager, etc
- The country in which the investments are held
- Whether you were resident in the UK at the time you took out the contract with us. If you were not resident in the UK, you may be eligible for compensation from an equivalent scheme in the country in which you were resident.

If Standard Life unable to meet its claims, investors would be protected by the FSCS, which provide cover at 100% of the policy value (including the value of External Fund Link (EFL) funds) for long term contracts of insurance. Where a customer's investment is held in an EFL which is subsequently unable to meet its claims, Standard Life owns the assets on behalf of the customer and as such is not able to claim on behalf of customers under the FSCS.

For further information on the compensation available under the FSCS please check their website [www.fscs.org.uk](http://www.fscs.org.uk) or call the FSCS on **0800 678 1100**. Please note only compensation queries should be directed to the FSCS. If you have any further questions, you can speak to your financial adviser or contact us directly. You can also find out more information at [www.standardlife.co.uk/investor-protection](http://www.standardlife.co.uk/investor-protection).

## Explaining the words we use

We have 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

**Asset class** – this is a category of investments, such as equity or bonds. Normally assets in the same class have similar characteristics. However, they can have different returns and risks.

**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 the same type of costs on two separate occasions. This might occur, for example, when an external fund into which a customer invests applies a fund management charge, but the assets that fund holds have already had that charge 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 Aberdeen Standard Investments.

**Fund management charge** – a fund management charge is applied to money invested in our funds and is shown as an annual rate. However, the charge is deducted from each fund on a daily basis, which has the effect of reducing its unit price.

**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 assets. An investment trust has a fixed number of shares.

**Open-ended investment company** – an open-ended investment company (OEIC) is a CIS which is run as a company. The sole interest of the company is to buy, sell and hold assets. Unlike an investment trust, an OEIC can issue or cancel shares depending on demand.

**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%.

**Pricing error** – a pricing error is a mistake in any published unit-linked fund price that Standard Life considers to have been caused by a failure by Standard Life or, where relevant, any applicable third party, to correctly apply processes at the point of pricing calculation.

**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. Like an OEIC, a unit trust is open-ended, meaning it can issue or cancel units depending on demand.

# Find out more

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)

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

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