

Important information

A guide to your with-profits investment and how we manage the fund

For customers investing through pensions.

The guide is important as it aims to answer some of the questions you might ask about with-profits.

You may find it helpful to refer back to this guide during discussions with your financial adviser or when you receive:

- an illustration of what you might get back
- your annual statement.

Making sense of it

If you are new to with-profits, you may find some of the terms in this guide unfamiliar or a bit complex. However, in every instance, we've provided an explanation of the terms in 'What does it mean?' boxes.

If you would like any more information, you can contact us by calling or writing to us.

Call us on **0800 068 6800**

Write to us at:

Aviva
P.O. Box 520
Surrey Street
Norwich
NR1 3WG

You can also use the following link to find out more about with-profits and the performance of our fund at:

[aviva.co.uk/with-profits](https://www.aviva.co.uk/with-profits)

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What is an Aviva with-profits investment?

- An Aviva with-profits investment is a low to medium risk investment that has the advantage of pooling your money with that of other investors, so you can benefit from investing in a wider spread of **assets**.
- Our With-Profit Fund offers the potential for returns that are higher than those received from a bank or building society average savings account. Although the fund has no fixed term, you should be prepared to invest for at least 5 to 10 years.
- The value of a with-profits investment can move up and down which means you may get back less than has been put in. However, the main difference between with-profits and other investments is that the value is smoothed over the long term.

We explain smoothing further on page 7, but basically it's a method of giving you a steadier return than you would ordinarily get from investing directly into **equities**.

- With an equity fund, the value of your pension fund can fluctuate greatly. This means you could see significant swings - if stock market returns go up sharply, so will the value of your pension fund, and if returns go down, the value of your pension fund can fall sharply as well.
- Smoothing helps to reduce some of the significant ups and downs of investing in the stock market. However, there may be times in poor market conditions when smoothing cannot fully protect your investment. In these circumstances, we would apply a market value reduction. This is explained in more detail on pages 7 and 11.
- Another important benefit is that our With-Profit Fund invests in a range of different **assets**, rather than just one. We choose the mix of assets (including equities, property, corporate bonds, gilts, **cash and cash alternatives**), which may vary over time. This means our With-Profit Fund can achieve balanced returns.

Is the With-Profit Fund suitable for me?

✓ Yes, if you are:

- prepared to invest for the medium to long term*
- looking for smoothed returns whilst being prepared to accept a low to medium risk
- looking for long-term growth.

What does it mean?

Assets

An asset is a type of investment. Different types of assets include equities (company shares), gilts (loans to the UK government), corporate bonds (loans to companies), property or cash and cash alternatives. Assets can rise and fall in value.

You can find definitions of the asset types on page 6.

What does it mean?

Equities

Equities are shares in companies listed on stock exchanges around the world. Shares can rise and fall in value very easily. This means equities are riskier than some other investments, but they usually offer the greatest potential for higher returns over the long term.

What does it mean?

Cash and cash alternatives

This includes a range of short-term deposits (cash) - similar to a bank/building society account - and money market securities (cash alternatives), which are interest-generating investments, issued by governments, major banks and other institutions.

✗ No, if you:

- only intend to invest for the short term
- are not prepared to accept any risk of losing money
- want to take a higher risk to achieve a potentially higher return.

* Medium term means greater than five years and long term would normally be considered to be 10 years plus. As a general rule, the longer you're able to invest, the greater the potential for growth.

With-profits investment at a glance

This initial summary helps to explain how our With-Profit Fund works.

Your investment

You invest for growth.

- You should aim to invest for the medium to long term.
- We pool your payment with other people's money and invest it in the With-Profit Fund. We then credit you with **units** equal to the value of your investment. The value of your investment then changes over time in line with the performance of the fund.

Guarantees

You receive certain guarantees.

As with all investments, the value of the With-Profit Fund can go down as well as up.

- The With-Profit Fund offers you certain guarantees if you keep your money in the fund until the date you originally chose as your retirement date (conditions apply - please read page 10).
- These types of guarantees are not always available from other funds.

We explain more about all the guarantees on page 10.

What does it mean?

Units

Your investment is divided into units of equal monetary value. The number of units is determined by the unit price of the fund on the date the units are purchased.

How our With-Profit Fund works

Asset mix

We use our investment expertise to determine the right asset mix.

We invest your money in the With-Profit Fund, which invests in a mix of assets, including:

- equities (UK and international)
- property
- gilts
- corporate bonds (UK and international)
- cash and cash alternatives.

We explain more about the asset mix of the With-Profit Fund on page 6.

Smoothing

We smooth the returns from the fund.

One of the main features of our With-Profit Fund is that it aims to grow in value from year to year rather than being subject to the significant ups and downs of the stock market.

We smooth the fluctuations in value by holding back some of the investment returns in good years. We then use that money to top up bonuses in the years where investment performance has been lower.

We explain smoothing in greater detail on page 7.

Market Value Reduction

There are times, in poor market conditions, when a market value reduction is introduced, which may reduce the value of your investment.

We explain more about market value reductions on pages 7 and 11.

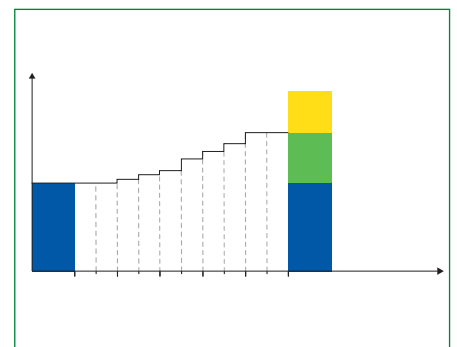
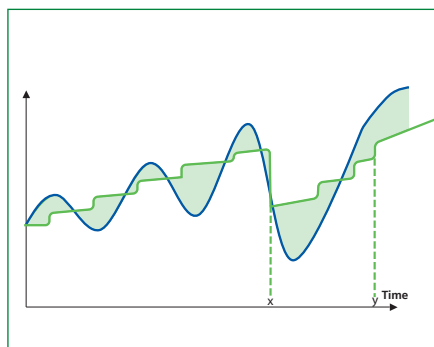
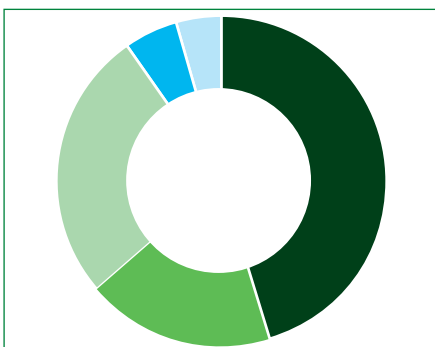
Bonuses

We decide the bonuses you receive.

The returns earned by the fund are shared out through a system of bonuses. We do this through careful management of the fund, which is how we smooth the returns. There are different types of bonuses:

- **Regular bonus**
We decide the regular bonus at least once a year.
- **Final bonus**
You may receive a final bonus when you decide to take your benefits.

We explain more about bonuses on page 8.



How our With-Profit Fund works

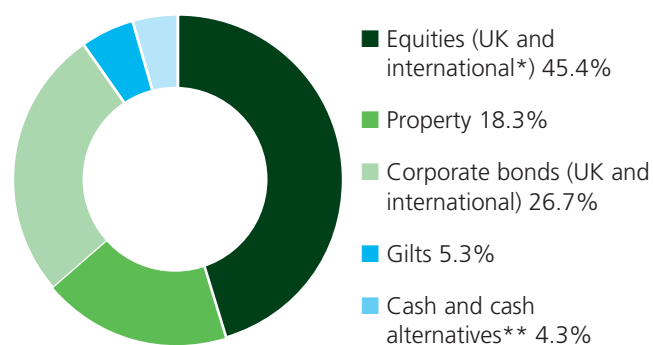
How does Aviva invest my money?

In simple terms, we invest your money into a broad range of assets called the asset mix. The asset mix diagram below shows which assets the fund invests in and the weighting currently given to each.

The value of your investment in this fund depends on the mix of assets backing your plan and how each asset performs. The With-Profit Fund aims to give you growth in excess of returns from an average savings account over the medium to long term.

The fund will always hold a mixture of higher and lower risk assets to achieve its objectives.

We currently hold over 60% of the fund in higher risk assets, such as **equities** and **property**. The rest is in medium and low risk investments, such as **gilts**, **corporate bonds**, **cash** and **cash alternatives**.



* Includes equity type assets not quoted on stock exchange.

** Includes a range of short-term deposits (cash) - similar to a bank/building society account - and money market securities (cash alternatives), which are interest generating investments, issued by governments, major banks and other institutions.

As at December 2011 this asset mix relates to the main Aviva With-Profit Fund.

The performance of the different types of assets varies over time. Our fund managers have a strong tradition of managing investments in all market conditions, and we may change the asset mix to:

- improve long-term performance
- make sure that the fund can meet its obligations.

The fund may, from time to time, include investments in other Aviva Group companies. However, this will not have a direct impact on the asset mix backing your plan.

What does it mean?

Equities

Equities are shares in companies listed on stock exchanges around the world. As shares can rise and fall in value very easily, equities are riskier than some other investments, but they usually offer the greatest potential for higher returns over the long term.

Property

This is investment in commercial property, such as offices, factories and retail outlets.

Gilts

These are loans to the UK government. The government pays interest on the loan and pledges to repay the debt at a certain point in time.

Corporate bonds

These are loans to UK and international companies. The company pays interest on the loan and pledges to repay the debt at a certain point in time. Corporate bonds are seen as riskier than gilts because companies are more liable to fail to repay the loan than governments, but they often offer a higher rate of return to balance out the higher risk.

Cash and cash alternatives

This includes a range of short term deposits (cash) - similar to a bank/building society account - and money market securities (cash alternatives), which are interest generating investments, issued by governments, major banks and other institutions. Cash and cash alternatives play an important role in providing a balanced return.

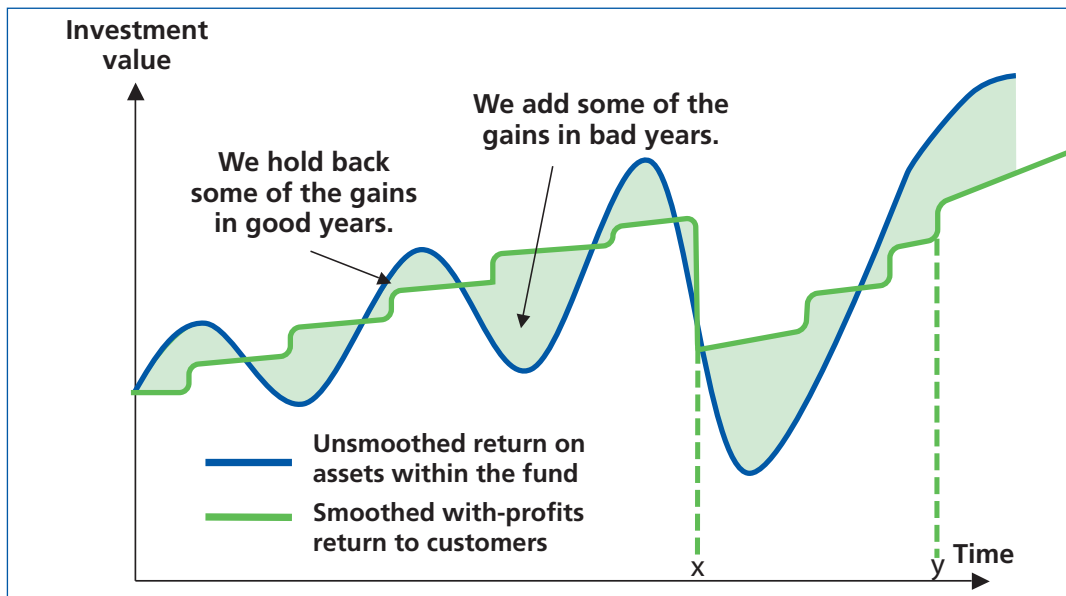
What is smoothing?

Smoothing is a method of reducing the ups and downs in the value of your investment by paying out the returns through a system of bonuses. Smoothing is a type of investment budgeting unique to with-profits.

How smoothing works

It works by keeping back some of the gains earned in good investment years and using them to help pay bonuses in poor investment years. Equally, losses made in poor investment years may also reduce gains in good investment years.

In a with-profits fund, instead of simply sharing out what the fund makes – or loses – each year, the fund aims to even out some of these variations in performance, as illustrated by the green line in the diagram below. In contrast, the unsmoothed fund value changes each day as the value of the assets goes up and down. This is illustrated by the blue line in the diagram.



This diagram is for illustration purposes only and shows a period of positive growth overall.

Things you need to be aware of:

There may be times when smoothing cannot fully protect your investment. This can happen following a large or sustained fall in the stock markets or when investment returns are below the level we normally expect. In these circumstances we will apply a **market value reduction** which will reduce the value of your investment, as illustrated in the diagram above between the points marked **x** and **y**.

There is further information on market value reductions under the 'What affects how much I might get back?' section on page 11.

What does it mean?

Market value reduction

This is a reduction made to ensure that customers remaining in the fund are not disadvantaged when others leave. If you take your benefits on a different date to the one you originally chose or withdraw money when a market value reduction is in place, it will reduce the value of your pension fund. An MVR could apply on your chosen retirement date in some circumstances (see page 10 for details).

An example showing why a market value reduction is applied

If there are three investors in the With-Profit fund, who each invest £10,000, the total fund is worth £30,000. If stock markets fall by 20% and, as a result the total fund drops to £24,000, it would mean that if one investor withdraws their original £10,000 without a market value reduction being introduced, it would only leave £14,000 to be shared between the remaining two investors.

What are the bonuses?

Returns earned by the With-Profit Fund are added to your pension fund through bonuses. Essentially, the bonuses represent your share of the profits in the fund.

There are two main types of bonus:

- Regular bonus
- Final bonus

The bonus rate is shown in your annual statement. The rate will vary over the period of your investment depending on the factors detailed below.

How do we decide the bonuses?

We decide the bonuses by looking at:

- how the fund has performed in the current year
- any gains or losses not previously shared out through smoothing from earlier years
- what we expect to earn in future years, and the impact of smoothing.

Regular bonuses are designed to be sustainable and provide steady growth in the value of your investment over time.

Final bonus rates aim to pay the balance between the regular bonus already added and the performance of the fund over the whole period of your investment.

We have wide discretion in deciding bonuses and investment strategy and can't guarantee we will apply a bonus every year. However, when changing bonuses we do so in accordance with the guidelines outlined in the Principles and Practices of Financial Management, details of which can be found on page 13.

How the bonuses are added

Regular bonus

We confirm regular bonus rates at least once a year.

- Your share of the fund is calculated in units. We add the bonus to your pension fund by increasing the price of the units you have. This means the number of units you hold remains the same, but the value of these units increases and reflects the bonus rate set.

Things you need to be aware of:

- A regular bonus is not the same as interest from a bank or building society.
- It is not guaranteed that a regular bonus will be added each year.

Final bonus

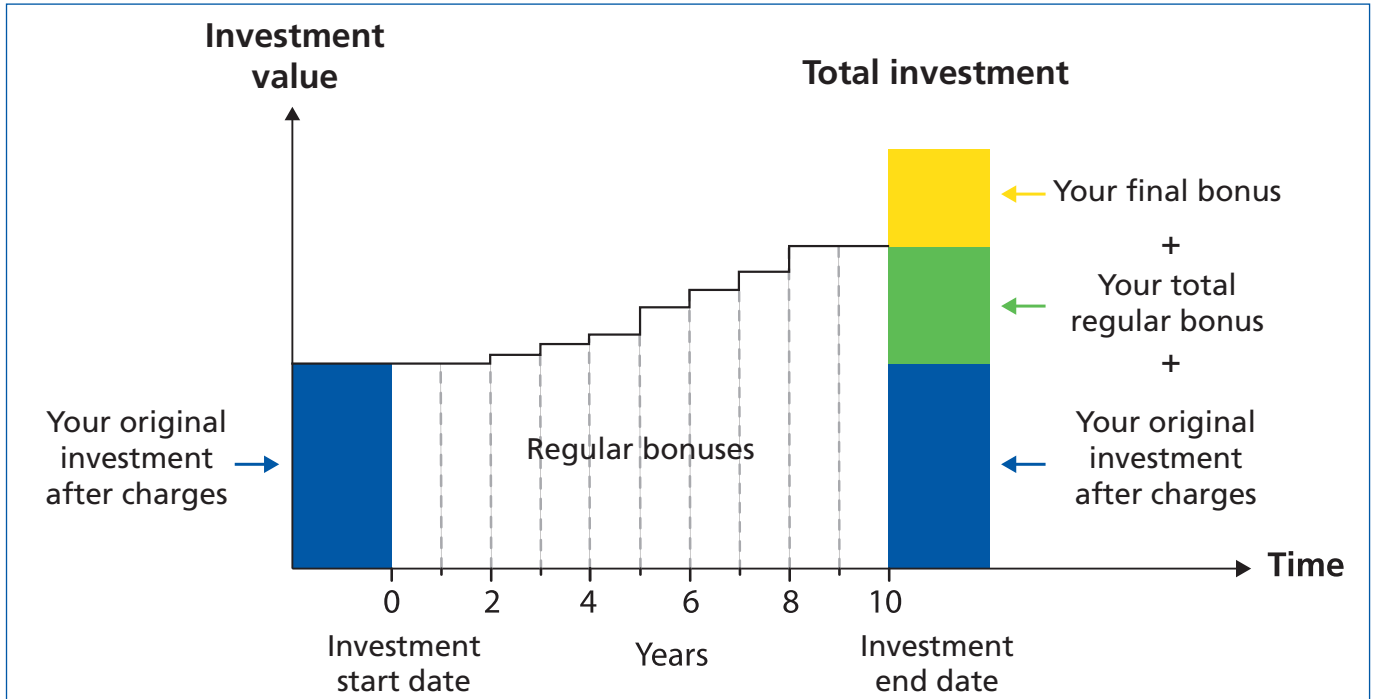
You may receive a final bonus when you take your benefits. This ensures you get a fair share of the return earned by your investment.

Things you need to be aware of:

- The final bonus is based on the year in which you invested and the point at which you leave the fund. It may vary with returns earned over the life time of your investment and is not guaranteed.
- If the investment return has been low over the period you invested, you may not receive a final bonus as you will have already received your share of the returns through regular bonuses.
- We use a typical plan rather than individual plans when setting final bonus rates for plans issued in the same year.

How bonuses are added

The diagram below shows how regular bonuses are added to your original investment to build up a larger sum of money. A final bonus may also be added when you withdraw your money from the fund. It may vary with returns earned over the lifetime of your investment and is not guaranteed.



This diagram is for illustration purposes only and shows a period of positive growth overall. Ten years is not the minimum or maximum period of investment for with-profits.

Your investment

What guarantees do I have?

The With-Profit Fund has important guarantees, which are not always available from other funds.

If you keep your money invested in the pension With-Profit Fund until the retirement date you originally chose or until your death, we guarantee that we will not apply a market value reduction.

This doesn't apply:

- if you started your plan within five years of your chosen retirement date
- to new one-off investments or increase to regular contributions (except those automatically increasing in line with average earnings) made within five years of your chosen retirement date
- to any existing investment moved into the With-Profit Fund within five years of your chosen retirement date
- to switches into the With-Profit Fund within five years of your chosen retirement date
- to switches out of the With-Profit Fund.

If you move out of the With-Profit Fund before or after your originally selected retirement date, we may apply a market value reduction when you take your benefits.

The guarantees described above don't apply to investments in the With-Profit Fund through the Trustee Investment Plan. To find out more, please contact us.

As these guarantees are valuable, we recommend you seek financial advice before withdrawing or switching any benefits in the future.

What affects how much I might get back?

The amount you get back will depend on the amount you invest, plus:

- how the fund has performed during the time you have invested with us and any final bonus or market value reduction applying when you cash in
- whether you have moved any money out of the fund
- our charges

We'll talk about each of these factors in turn to give you an idea of what effect they have on the value of your pension fund.

Fund performance

This has a major impact on what you will get back. If the fund performs well, you will receive higher returns than if it performs poorly during the period of your investment.

As we mentioned in the section explaining the asset mix, the performance of the fund depends on the performance of the assets in which it invests. If the assets perform well, so will the fund. The With-Profit Fund invests in a wide range of assets, which means it's possible that if one type of asset is performing poorly, another type may perform well, balancing out the overall performance.

With-profits investments are designed to be medium- to long-term investments. This means that the longer you leave your investment in place, the more likely it is that you will get better returns when you eventually take your benefits.

If you'd like up-to-date information on fund performance, you can visit aviva.co.uk/funds/pension-funds.html

Things you need to be aware of:

Over the long term, payouts across all with-profits customers will average 100% of the unsmoothed value (as illustrated by the blue line in the diagram on page 7). At an individual customer level, you could get back more or less than this. However, the difference between the smoothed value (green line) and the unsmoothed value (blue line) will rarely be more than 20%.

Market value reduction

As previously mentioned, a market value reduction is a way of protecting investors during periods when investment returns are below the level we would normally expect or following a large or sustained fall in the stock market. We apply a market value reduction to make sure that all investors receive their fair share of the returns earned over the period of their investment.

We constantly monitor investment conditions and the total amount of money being taken out of the fund. We may apply a reduction at any time if we think it's necessary to protect investors. This will affect you if you want to withdraw your money from the With-Profit Fund and could mean you get back less than you invested (**unless a guarantee is applying at the time**). We will tell you if a market value reduction is applying when taking your money out of the fund, so you have the opportunity to change your mind.

When a market value reduction will not apply

- We will not apply a market value reduction on the value of your pension fund if you die.
- There may be other instances when we will not apply a market value reduction to your pension fund. You can find more information about this in your policy terms and conditions.

Moving your money out of the fund

If you move all or part of your money to another fund or another provider, or if you take your benefits early, this will affect the final value of your pension fund.

Charges

Your pension fund has charges for administration, expenses, investment management and any commission. The difference between the charges we set and the expenses we incur, contributes towards our business profit.

The charges are set out in any illustration you receive. Please see your financial adviser for more information on our charges.

What else do I need to know about how Aviva manages the With-Profit Fund?

With-Profits Committee

Our customers are at the heart of everything we do and Aviva is fully committed to treating customers, as a group, fairly at all times.

To support this, we have a With-Profits Committee which brings independent expertise and oversight, to ensure fairness is fully considered in our with-profits decision making.

Managing the business risks the With-Profit Fund may be exposed to

There are a few factors which could have an impact on the funds. We call these factors business risks. These may change over time and may include:

- the amount of new business we sell and the terms we offer
- the guarantees we offer
- the fund's expenses being higher than planned.

As business risks could affect the returns earned by the With-Profit Fund, we continually assess the risks to see if they:

- are acceptable to the fund
- provide an adequate return compared with the risk we take.

The inherited estate

Our With-Profit Fund is supported by an amount of money in excess of the amount we expect to pay out to existing policyholders. The excess money is known as the inherited estate and we use this to provide working capital to support smoothing and capital guarantees.

The size of the inherited estate is important as it gives us:

- the flexibility to invest in a more diverse range of assets
- a cushion of additional security to protect investors when investment returns are low
- a greater capacity for smoothing the returns you receive.

The estate also provides **solvency capital** for our With-Profits business, and will normally absorb any profits or losses that arise from business risks (described above).

What does it mean?

Solvency capital

Capital that allows Aviva to demonstrate that our With-Profit Fund is solvent and able to meet its obligations even if it were to suffer losses.

Since October 2009 part of the inherited estate has been allocated to shareholders in accordance with arrangements approved by the High Court. However, the inherited estate remains in place to provide security for customers' benefits. New customers investing in the fund since October 2009 might benefit from distributions from the part of the inherited estate not allocated to shareholders, although such benefits are uncertain and unlikely to occur in the foreseeable future. Further information on this can be found in our Principles and Practices of Financial Management (see page 13 opposite for details).

Policyholder and shareholder interests

There are two groups who have an interest in the With-Profit Fund: **policyholders** and **shareholders**.

We must make sure that any decisions we make on the running of the fund are fair to everyone. This means we have to balance the interests of:

- policyholders whose investments start at different times
- policyholders remaining in the fund and those leaving the fund
- our shareholders.

We take all this into consideration in the way we run the fund. We allocate at least 90% of investment returns (other than returns on the inherited estate allocated to shareholders) to policyholders, with the remaining 10% to shareholders.

What does it mean?

Policyholder and shareholder interests

- Policyholders have invested their money in the fund.
- Shareholders own a stake in our total business as Aviva.

Regulations

We are regulated by the Financial Services Authority and are also subject to UK law. If laws or regulations affecting financial services change in the future, this may have an impact on your pension fund.

Tax

We pay corporation tax on the With-Profit Fund, which we aim to charge fairly across the fund. We take this tax into consideration when we set the bonus rates. This is based on our understanding of taxation rules and regulations. Tax law may change in the future.

The impact of tax on your investment will depend on your personal circumstances. Your financial adviser will be able to help you understand this more.

Where can I find out more?

We hope this guide has given you a helpful overview of how the With-Profit Fund works.

This guide is only intended as a summary. In line with guidance from our regulator, the Financial Services Authority, we also have a document that goes into greater detail on the way we manage our With-Profit Fund.

This document is called the Principles and Practices of Financial Management and can be found under the heading 'For Aviva personal pensions and Portfolio' and is called the **'PPFM for Aviva Life and Pensions UK Limited Old and New With-Profits Sub Funds'** on our website:

aviva.co.uk/ppfm

If there is any dispute regarding the content of the two guides, the more detailed guide will take precedence.

You can also invest in the With-Profit Fund through an investment bond or an annuity which each have separate guides. You can view these on our website:

aviva.co.uk/with-profits

A summary of any changes to our PPFM guides can be found on our website together with our annual compliance statement.

Alternatively, you can contact us for a copy of these guides or for more information by calling **0800 068 6800**.

If you have any questions about investing in with-profits, you can talk to your financial adviser. They will be able to consider your current circumstances and financial goals and give you advice on whether with-profits is a suitable investment for you.

In addition, the Financial Services Authority has a website dedicated to financial education, which includes information about with-profits investment.

moneymadeclear.fsa.gov.uk

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