



FLC With-Profits Sub-Funds and Investment Summary

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This brochure provides a summary of how we manage the **Aviva Life & Pensions UK Limited FLC With-Profits Sub-Funds (the ‘Sub-Funds’)**, along with details of the asset mix and investment returns.

Your policy document will show the name of the company your policy was taken out with. If you are unsure which with-profits sub-fund you’re invested in, you can find further details at **[aviva.co.uk/ppfm](https://www.aviva.co.uk/ppfm)**.

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Making sense of it

You may find some of the terms in this guide unfamiliar. To help, we’ve provided an explanation of the terms in **‘What does it mean?’** boxes.

There are two main types of with-profits policies in the Sub-Fund:

Conventional with-profits policies – your investment provides a guaranteed amount (sometimes referred to as the ‘sum assured’) at maturity or on death.

Unitised with-profits policies – your investment is used to buy units of equal monetary value based on the unit price on the day of the investment.

If your yearly statement or bonus notice shows units and/or unit prices, then you have a **unitised policy**. Otherwise, your policy is a **conventional** one.

There can be other differences between the two types – where appropriate these are highlighted throughout the guide.

What is an Aviva with-profits investment?

At a glance

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 wide spread of **assets**.

We explain assets in greater detail on page 4.

- The FLC With-Profits Sub-Funds are rated as a **low to medium volatility** funds.
- We have two FLC With-Profits Sub-Funds - the FLC New With-Profits Sub-Fund and the FLC Old With-Profits Sub-Fund. This brochure applies to both Sub-Funds.
- The objective of an Aviva with-profits investment is to provide steady capital growth over the medium to long term, whilst smoothing out fluctuations in investment markets.
- The value of the Sub-Funds can go down as well as up depending on the returns of the underlying mix of assets within the Sub-Funds. We share out the profits and losses of the Sub-Funds through a system of bonuses, with the aim of smoothing the returns on your with-profits investment over the long term.
- We explain smoothing in more detail later, but basically it helps to reduce some of the significant ups and downs of investing in the stock market. We smooth the rises and falls in value by holding back some of the investment returns in good years. We then use them to top up bonuses in poor investment years. Losses made in poor investment years may also reduce returns in good investment years.
- Some products provide guaranteed policy benefits if certain events happen or on specified dates. We explain some of these guarantees in greater detail in the What are the Guarantees? section on page 11.



What does it mean?

Low to medium volatility - 3

Aviva assesses risk ratings using historical performance.

The historical performance of funds with this risk rating has typically experienced low to medium volatility compared with other funds Aviva has rated. This means that these funds have a low to medium potential for substantial changes in value compared with other Aviva funds.

You can find out more about our risk ratings at:

www.aviva.co.uk/retirement/fund-centre/investment-funds/risk-ratings

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.



Things you need to be aware of

Investing in with-profits may not be appropriate if you:

- expect to need your money in the short term
- are not prepared to accept any risk of losing money
- would prefer the certainty of the interest from a bank or building society savings account, which you are guaranteed to receive once it is earned.

Asset mix

At a glance

We invest your money in the FLC With-Profits Sub-Funds, which invest in a mix of assets including:

- shares/equities (UK and international)
- property
- fixed interest - corporate bonds (UK and international) and UK gilts
- cash/money market

How do we invest your money?

We invest your money into a broad mix of assets. The asset diagram below shows the type and percentage of each asset that the FLC With-Profits Sub-Funds invest in.

The Sub-Fund your policy invests in will always hold a mixture of higher and lower risk assets to achieve its objective.

The Sub-Funds hold a greater proportion of higher risk assets, such as **shares (equities)** and **property**. The rest is in medium and lower risk investments, such as **gilts, corporate bonds, cash/money market**.



Overall Asset Mix as at 31/12/2018

This diagram shows the overall asset mix of the FLC With-Profits Sub-Funds as at the end of December 2018.



The asset mix may be different for conventional and unitised policies. Further details are shown in the Appendix on page 13.

Asset mix (continued)

The performance of the different types of assets varies over time. Our fund managers may change the asset mix to:

- improve the long term performance of the Sub-Funds
- make sure that the Sub-Funds can meet their obligations.

From time to time the Sub-Funds may include investments in other Aviva group companies. However, this will not have a direct effect on the asset mix backing your policy.



What does it mean?

Shares (equities)

Shares (or 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 most other investments. However, they usually offer the greatest chance of higher returns over the long term. In our Sub-Funds the equity part of the asset mix includes equity-type assets that are not quoted on stock exchanges, plus alternative investments. We only invest a small proportion in alternative investments, typically less than 5%.

Property

This is investment in commercial property such as shopping centres and business offices. The value of property can go down as well as up, and property may take longer to buy and sell than other types of investment.

Fixed interest

Fixed interest investments include government and corporate bonds. These are loans issued by the government or a company as a way for them to borrow money.

The government or company pays interest on the loan and promises to pay back the debt at a certain point in the future. The value of fixed interest investments can go down as well as up. Government bonds issued by the UK government are referred to as gilts.

If a government or a company defaults on the loan then the interest will not be paid. UK gilts are regarded as less risky than corporate bonds as the UK government has a good credit rating.

Cash/money market

Cash means a range of short-term deposits – similar to a bank/building society account. Cash also includes money market securities, which are interest generating investments, issued by governments, banks and other major institutions. The value of cash and money market securities can go down as well as up.

Investment returns and market overview

Investment Returns

The investment returns achieved in each of the last five years are as follows:

	2018	2017	2016	2015	2014
before tax (pensions)	-1.9%	8.1%	11.7%	6.0%	9.3%
after tax (life)	-1.4%	6.7%	9.8%	5.2%	7.9%

The investment returns above are on the whole Sub-Funds and are not applicable to any individual policy or plan. Figures are before any deduction for investment expenses. This is past performance. Past performance is not a guide to the future.

Investment markets in 2018

Equity markets generally performed poorly in 2018, with the exception of the US which made modest gains in sterling terms, helped by the weakness of the pound relative to the dollar. UK government bond (gilt) prices edged slightly higher but UK corporate bonds made a small loss over the year.

The main factors affecting performance were investors' concerns about the reduction of economic support from central banks plus interest rate increases, fears of a global trade war, political risk in Europe and uncertainty around Brexit and its effects.

The FTSE®* 100 share index, a commonly used indicator of the performance of UK shares, showed a total return of minus 8.8% (see Note 1), while UK corporate bonds returned minus 1.5% (see Note 2).

Notes:

1 Source: Lipper IM, a Thomson Reuters company. FTSE®* 100 Total Return Index.

2 Source: Lipper IM, a Thomson Reuters company. Markit iBoxx Sterling Non Gilts Overall TR Index.

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What affects how much you might get?

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

- how the Sub-Funds have performed during the time you have invested with us
- the way we apply the smoothing process
- the effect of any guarantees (shown in your policy documents)
- our charges, such as administration costs, investment management fees and any financial adviser commission or charges
- any tax we pay and any future tax changes (pensions currently receive favourable tax treatment)
- for unitised policies any early exit charges (where applicable), withdrawals (where these are allowed), and whether we are applying a **market value reduction** when you move money out of the Sub-Fund.

Smoothing – how it works

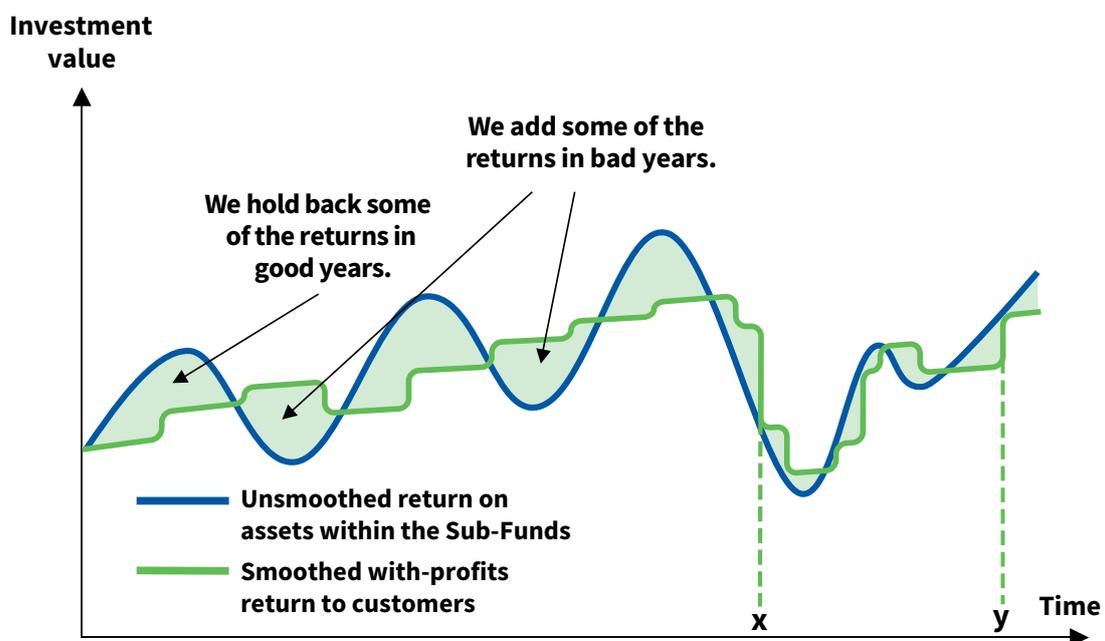
At a glance

One of the main features of a with-profits investment is that it aims to grow in value smoothly from year to year rather than being affected by the significant ups and downs of the stock market.

Over time the value of the assets held by the Sub-Funds will rise or fall. We do not change bonus rates as often as the value of the assets changes. Instead we aim to even out some of these variations in performance. This is known as smoothing. We show this with the green line in the diagram below. In contrast, the unsmoothed Sub-Funds' value changes each day as the value of the assets goes up and down. This is shown by the blue line in the diagram.

Smoothing applies to both **conventional** and **unitised** policies.

The following diagram is for illustration purposes only and shows a period of positive growth overall, which is not guaranteed.



Things you need to be aware of

There may be times in poor market conditions when smoothing can't fully protect your investment, as illustrated between points **x** and **y** in the diagram above. This can happen following a large or sustained fall in the stock markets or when investment returns are below the level we normally expect. If you leave the Sub-Funds under these circumstances, this could reduce the value of your investment. This is explained in more detail under the heading 'What happens if you leave the Sub-Funds early?'

Bonuses – how do we add the bonuses?

We share out the returns the Sub-Funds earn through a system of bonuses. There are different types of bonuses:

Regular bonus

Regular bonuses are designed to be sustainable and provide steady growth over time in the value of your investment. We decide regular bonus rates at least once a year.

Final bonus

Final bonus aims to pay any balance between the regular bonuses we have already added and the performance of the Sub-Funds over the whole period of your investment. This makes sure that you get a fair share of the return your investment has earned.

Bonuses can vary and are not guaranteed.

Bonuses

You can usually see any regular bonus details in your yearly statement. The rate will vary over the period of your investment.

We decide the bonuses by looking at:

- how the Sub-Funds have performed in the current year
- any returns or losses from earlier years that we have not already shared out through smoothing
- what we expect to earn in future years, and the effect of smoothing.

Regular bonus

Unitised Policies

We calculate your share of your investment in the Sub-Funds in units. We add regular bonuses, if any, by either buying extra units or by increasing the price of the units, depending on the type of policy that you have.

For most unitised policies we add regular bonuses, if there are any, at least monthly by increasing the unit price. For the remaining unitised policies, we add regular bonuses, if any, once a year by adding extra units.

For some unitised policies there is a guaranteed rate of interest. For these policies we may also set a regular bonus which will be paid on top of this guaranteed interest. Your policy documents tell you if this applies to your policy.

Conventional Policies

We may add regular bonuses, if any, once a year to the guaranteed amount.

Conventional with-profits policies can receive two types of regular bonus, which are added on top of the initial guaranteed amount. This is calculated as:

- a proportion of the initial guaranteed amount; and
- a proportion of any bonuses we've added previously.

Once added, we guarantee that the regular bonus will be paid at your chosen retirement date, the policy's maturity date or on death.



Things you need to be aware of

- A regular bonus is not the same as interest from a bank or building society.
- We don't guarantee to add a regular bonus to your investment each year. This is illustrated on the diagrams on the next page at years 1 and 9 for unitised policies, and at years 1, 11, 17 and 19 for conventional policies.
- It's likely that bonuses will be smaller in poor investment years than in good years.

Bonuses – how do we add the bonuses? (continued)

Final bonus

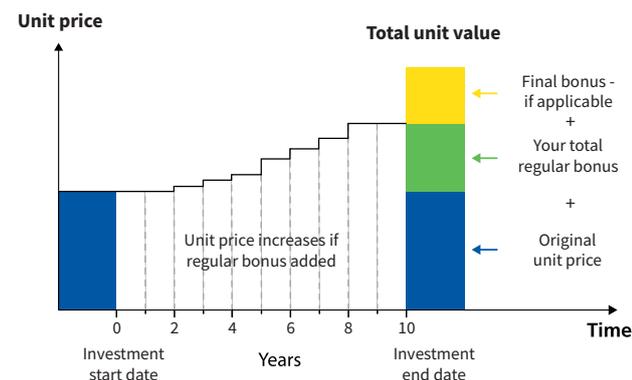
We aim to pay a final bonus to increase the value of your policy:

- if you die
- if you transfer your pension or cash in your policy
- at maturity, for endowments, or at your chosen retirement date, for pensions
- if you switch out of the Sub-Funds into another investment fund (unitised policies only).

We normally review final bonus rates twice a year. However, we may review them more frequently if there are large changes in investment markets. Final bonus rates can change at any time, are not guaranteed and could be zero.

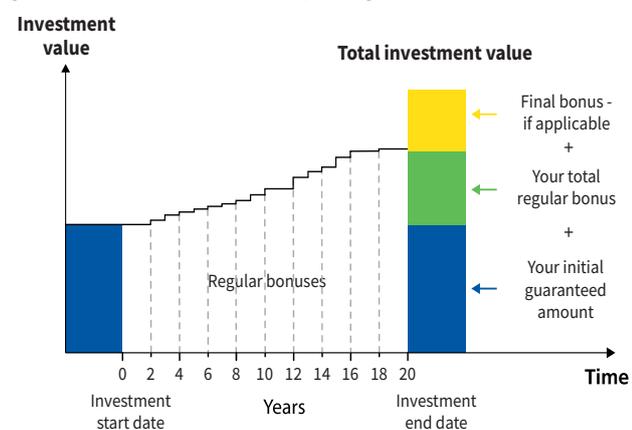
Unitised Policies

The diagram shows how we add regular bonuses to your original investment.



Conventional Policies

The diagram shows how we add regular bonuses to your initial guaranteed amount to build up a larger lump sum.



These diagrams are for illustration purposes only and show periods of positive growth overall, which is not guaranteed. The terms illustrated are not the minimum or maximum period of investment for with-profits.



Things you need to be aware of

For Unitised and Conventional policies:

- The final bonus is based on the year in which you invested and the point at which you leave the Sub-Funds. It may vary depending on the returns earned over the lifetime of your investment and is not guaranteed.
- You may not receive a final bonus if the investment return has been low over the period you invested, as you will have already received your share of the returns through regular bonuses.
- We use a typical policy rather than individual policies when setting final bonus rates for policies issued in the same year.
- Certain policies are not entitled to receive a final bonus and as a result the regular bonus on these policies may vary more than on others. Policies where we do not pay final bonuses include:
 - with-profits Individual Savings Accounts
 - Retirement Savings Schemes, and
 - pension policies invested in the Group With-Profits Fund.

For Unitised Policies

- If a **market value reduction** is in place then this can reduce the effect of any final bonus and you may get back less than you invested. We will tell you if a market value reduction is applying before you take money out of the Sub-Funds so you have the opportunity to change your mind.



What does it mean?

Market Value Reduction

This is a reduction we sometimes have to make so that customers who remain invested in the Sub-Funds are not disadvantaged when others choose to leave.

An example showing why we may make a market value reduction

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

What are the Guarantees?

Some conventional and unitised products provide guaranteed policy benefits if certain events happen or on dates as set out in your policy document.

For example, the event may be your policy's maturity date as agreed when you took it out. Or, for a pension policy, it may be the date you chose to retire when you started the policy. Your policy documents will set out any guarantees.

Unitised Policies

We will not apply a market value reduction to your policy on your original retirement date, on maturity or on death. However, for pensions policies we may apply it on your selected retirement date if you have made any additional single payments, transfer payments or switches into the Sub-Fund in the previous five years.

We can't guarantee the amount you will get back if you move out of the Sub-Funds before or after your originally selected retirement date or before your maturity date.

Conventional Policies

At the end of your policy term or on death, we'll pay the basic guaranteed benefit as well as any regular bonus we've already added. We'll do this even if the stock market falls significantly.

You won't receive any guarantees if you decide to cash in your policy early.



Things you need to be aware of

Some pension policies, such as flexible transfer plans, provide a minimum guaranteed annuity benefit at maturity. Your policy documents will set out any guarantees that may apply.

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

What happens if you leave the Sub-Funds early?

You may decide to move some or all of your investment out of the Sub-Funds early. For example, where your policy allows, you might:

- cash in your policy
- transfer to another company; or
- switch to another type of fund (only available for unitised with-profits policies).

You should view with-profits investments as a long-term investment. This means leaving the Sub-Funds early may be the wrong option for you, especially if you have guarantees.

If you're considering leaving the Sub-Funds, we'd strongly suggest that you talk to your financial adviser or contact us directly. You can call us on the telephone number shown on your annual statement.

Unitised Policies

We work out the cash-in, transfer or switch value by looking at the value of units in your policy and then apply any deduction as described in your policy documents. We may then add a final bonus.

There may be times in poor market conditions or when investment returns are below the level we normally expect when we would apply a **market value reduction** if you move out of the Sub-Funds.

Market value reductions only apply to unitised with-profits policies. It's a reduction made to ensure that policyholders who remain in the Sub-Funds are not disadvantaged when others leave.

If you move out of the Sub-Funds when a market value reduction is in place it will reduce the value of your investment. This means you could get back less than you have invested. We will not apply it to your policy on your selected retirement date, on maturity or on death. However, we may apply it on your selected retirement date if you have made any additional single payments, transfer payments or switches into the Sub-Funds in the previous five years.

If you tell us you want to move your money out of the Sub-Funds, we'll let you know if a market value reduction will be applied before taking your money out of the Sub-Funds. This gives you the chance to change your mind.

Conventional Policies

If you move your money out of a conventional with-profits policy (eg. surrender before the maturity date or transfer before the selected retirement date) we will reduce the policy's guaranteed benefits to reflect that you have paid fewer premiums and been invested in the Sub-Funds for a shorter time than we expected when you took out the policy. We may add a final bonus.

Appendix

Asset Allocation

The Sub-Funds invest in various types of assets as shown below.

Different policies have different asset allocations:

All **unitised** policies are initially invested in a higher proportion of shares and property. However, as policies get nearer to their maturity date, we increase the level of fixed interest assets and reduce the level of shares and property.

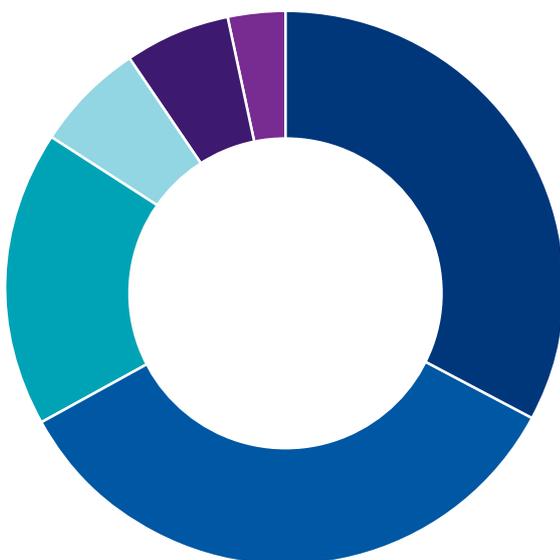
Conventional Policies



Asset Mix for Conventional Policies as at 31/12/2018

- UK shares (equities) 24.6%
- International shares (equities) 25.6%
- Property 13.0%
- Fixed interest - UK gilts 14.8%
- Fixed interest - UK corporate bonds 14.8%
- Fixed interest - international bonds 7.2%
- Cash/money market 0%

Unitised Policies



Initial Asset Mix for Unitised Policies as at 31/12/2018

- UK shares (equities) 32.8%
- International shares (equities) 34.2%
- Property 17.3%
- Fixed interest - UK gilts 6.3%
- Fixed interest - UK non gilts 6.3%
- Fixed interest - international bonds 3.1%
- Cash/money market 0%

All unitised policies are initially invested in a higher proportion of shares and property. However, as policies get nearer to their maturity date, we increase the level of fixed interest assets and reduce the share of shares and property.

Questions and Answers

What is the With Profits Committee?

Our customers are at the heart of everything we do and we are fully committed to treating them fairly at all times.

To support this, we have a With Profits Committee which oversees our work with independent expertise to make sure our decisions relating to with-profits investments are fair.

You can find out more about our With Profits Committee at aviva.co.uk/wpcommittee.

How are business risks managed?

The FLC With-Profits Sub-Funds are exposed to a number of risks. The cost of risks is normally allocated to the Sub-Funds as a whole not to individual policies.

Our biggest risks come from the need to pay the guaranteed payments on all policies when they become due, and from the possibility of falls in investment values. We control the risks to the Sub-Funds by monitoring the various risk factors, and taking action to reduce our exposure to risk, for example by changing investment strategy.

What are the estate and the capital support?

There is an 'estate' which consists of the assets in the Sub-Funds over and above those required to cover the amount we expect to pay out to policyholders, including bonuses we expect to add in the future. Over time we aim to pay out all the assets in the Sub-Funds in a way that is fair to all policies, so that the estate will be zero when all policyholders have left the Sub-Funds.

In all but extreme circumstances, Aviva Life & Pensions UK Limited has certain capital support assets that can be used to pay policy benefits of the Sub-Funds should the Sub-Funds' own reserves and estate be insufficient. If needed, the support assets will be transferred to the relevant Sub-Fund. The support assets will be repaid when no longer required.

Are new policies still being issued?

The FLC With-Profits Sub-Funds closed to new customers on 28 December 2012, although subject to policy conditions, existing policyholders can still top-up their policies and new members can still join existing group pension policies.

Have there been any court schemes that affect policies?

The business of what is now the FLC Old With-Profits Sub-Fund and the FLC New With-Profits Sub-Fund has been the subject of a number of past schemes by the High Court. In 2017, a further Scheme moved the business to Aviva Life & Pensions UK Limited and all important aspects of previous schemes were retained for policyholders.

A part of the estate was set aside to pay reorganisation bonuses to policyholders who held eligible with-profits policies at the time of the first court scheme in 2001 (the 'Reorganisation Scheme'). This is still the case under the latest 2017 Scheme. If you are eligible, these bonuses are paid when you move some or all of your investment out of the Sub-Funds.

Policyholders in the FLC Old With-Profits Sub-Fund may also receive a special bonuses if certain conditions in the 2017 Scheme are met.

What are policyholder and shareholder interests?

There are two groups who have an interest in the Sub-Funds – **policyholders** and **shareholders**. We must make sure that any decisions we make about how we run the Sub-Funds are fair to everyone. This means we have to balance the interests of:

- policyholders whose investments start at different times
- policyholders who move money out of the Sub-Funds and those who keep their money invested in them
- our shareholders.



What does it mean?

Policyholders have invested their money in the Sub-Funds.

Shareholders own a stake in our total business.

How are the profits shared?

Both policyholders and our shareholders share in the profits of the Sub-Funds. For every £9 of bonus we add to your policy, our shareholders are entitled to a maximum of £1.

Where can I find out more?

We hope this guide has helped you understand how our FLC With-Profits Sub-Funds work.

This guide is only meant to be a summary. We also have a detailed document, called the **Principles and Practices of Financial Management (PPFM)**, which is produced in line with guidance from our regulator, the Financial Conduct Authority. You can find it and more on our website:

aviva.co.uk/ppfm/#flc-with-profits

If there are any differences between the information in the two guides, you should take the Principles and Practices of Financial Management as the final word.

You can see a summary of any changes to our PPFM on our website together with our yearly compliance statement.



You can also contact us for a copy of these guides or for more information by calling

0117 989 9000

Calls may be recorded and/or monitored for the purposes of training and quality assurance.



Write to us at:

Aviva
PO Box 582
Bristol, BS34 9FX



You can use the link below to find out more about our Sub-Funds at:

aviva.co.uk/ppfm



If you have any questions about your investment you can talk to your financial adviser. They will be able to consider your current circumstances and financial goals.

If you don't have a financial adviser, one can be found at **unbiased.co.uk**.

Please note your financial adviser may charge you for any advice provided.