With-Profits Summary

A guide to how we manage the Secure Growth Fund

January 2018

Retirement
Investments
Insurance
Health

Background

Within Aviva Life & Pensions UK Limited ('the Company'), there are a number of separate with-profits sub-funds. This guide applies to the Secure Growth Fund.

Prior to 2016, the Secure Growth Fund had not been considered to be a with-profits sub-fund, so no With-Profits Summary has previously been prepared for the Fund. Changes in regulation on 1 January 2016 required us to reconsider this and we concluded that from 1 January 2016, the Secure Growth Fund will be managed and reported as a with-profits sub-fund. Amongst other implications, this document has had to be prepared to describe how the Fund is managed. However the principles and practices it describes in it are largely those which have been applied for many years.

Aims of this guide

This guide tells you how we manage the Secure Growth Fund ('the Fund'). It is a summary of the key points in the 'Principles and Practices of Financial Management' (PPFM) document for the Fund. Principles are statements of the overall standards we adopt; Practices describe our current approach to managing the Fund.

The PPFM itself is available from our website, **aviva.co.uk/ppfm**, or we can send you a copy if you ask us to – please see the contact details at the end of this booklet. The terms of the PPFM apply in the case of any differences between it and this document.

Why this guide is important

Please read this guide. It gives important information about how policies investing in the Fund work and what policyholders can expect from them.

Please keep this guide in a safe place with your other policy documents. When reading this guide you may find it helpful to have your policy documents ready to refer to.

If, having read this guide, you need more information, please:

- call us using the phone number shown on the documents provided with this booklet;
- contact your financial adviser. Please note they may charge for any advice given; or
- call **0345 602 9199** giving your policy number. Calls may be recorded.

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How does your policy work?

All policies share in the investment profits made in the Fund.

We use your premiums to buy units in the Fund. We add regular interest, if any, by increasing the unit price daily in line with the rate of regular interest rate we declare, less any expenses.

In future we may introduce other forms of distribution of profits, if we consider that this would help us improve the fairness of the distribution. This might include a final interest payment or bonus when your policy ends.

Guarantees

There are likely to be guarantees under your policy. These apply if certain events happen or on specific dates stated in your policy document. For example, the date you intended to retire when you started the policy.

How are interest rates determined?

Our primary aim is to make sure that all guarantees are met and that all policyholders are treated fairly. Future interest rates cannot be guaranteed as they come from profits that have not yet been earned. This means that it is possible that very low levels of interest may be added for a period.

Some policies include guarantees of minimum interest rates over the full term of the policy. In these cases the value of premiums, less, in some cases, charges, accumulated at the guaranteed interest rate will always be the minimum payout usually at the date you intended to retire when you started the policy.

Regular interest rates

We base the regular interest rates on the future investment return we expect to earn in the long term on the assets of the Fund.

Excess assets exist when the assets of the Fund are higher than the amount required to pay policy and other benefits (including the payment of guaranteed benefits and future interest) plus an amount to meet adverse events. If there are excess assets in the Fund we increase regular interest rates to allow the distribution of some or all of the excess assets over the lifetime of the remaining policies. Similarly, if excess assets do not exist in the Fund we reduce the regular interest rates to allow the any shortfall to be recovered over the lifetime of remaining policies.

Regular interest rates are reviewed at least once a year.

Special interest additions and final bonus

We aim to balance fairly the interests of policyholders cashing in units in the Fund in the immediate future and those who will remain invested in the Fund for many years. From time to time, we may consider that the excess assets of the Fund have reached a level at which its distribution through an increased regular interest rate alone would not achieve this aim. In this case, we may then make a special interest payment to all policies in force at a specified date or add a final bonus to units when they are cashed in.

Smoothing

Over time, the value of the investments held by the Fund will rise or fall. We restrict the pace of change in the value of your policy from year to year, so that in normal circumstances there is a maximum change that we may make from one year to the next. In adverse circumstances, we may make changes larger than this maximum. This could be, for example, where the investment return earned on the Fund in the last year has been very low or negative.

Over the long term, we would not expect the Fund itself to gain or lose from smoothing and we adjust regular interest rates to ensure this.

What happens if you leave the Fund early?

You may decide to move some or all of your investment out of the Fund early. For example you might:

- cash-in your policy;
- transfer to another company; or
- switch to another type of Aviva fund.

We work out the cash-in, transfer or switch value by looking at the value of the units in your policy and then apply any reduction (as described in your policy booklet) or any final bonus.

If the assets in the Fund which back your policy have performed poorly, then we may reduce your payout by applying what is known as a 'Market Value Reduction' ('MVR'). We apply an MVR to make sure that a fair share of the Fund is left for the remaining policyholders. For certain policies we guarantee not to apply an MVR on certain dates or events. Your policy booklet will tell you if this is the case.

A Short Term Investment Charge ('STIC') may also be applied where you started to invest in the Fund (or made a one off contribution or switch to the Fund) less than five years before you wish to take your benefits from the Fund. The cash-in value may be reduced to ensure that a fair share of the Fund is left for the remaining policyholders.

How is your money invested?

Our investment strategy for with-profits policies is to invest mainly in fixed-interest securities, although company shares make up around one fifth of the assets. We aim to provide the best possible investment returns for the benefit of policyholders generally, allowing for:

- the objective of investing mainly in fixed-interest securities;
- the level of guarantees within the Fund; and
- the amount of excess assets in the Fund.

We set guidelines for our investment managers to tell them the proportions of the Fund that should be invested in each type of asset. We also control any potential risks to the Fund by setting guidelines covering the quality of the assets, and range of investments within each asset class.

How are business risks managed?

Risks arising from investment performance guarantees are the responsibility of the Fund. These include:

- having to cash-in units at the current price on normal retirement dates and, for some policies, on some other occasions irrespective of the value of the Fund's assets;
- smoothing limits on reducing the regular interest rate (see 'Smoothing');
- having to add interest at a non-zero rate where this is a policy requirement; and
- meeting the minimum lifetime interest guarantee which some policies possess (see 'How are interest rates determined?').

The risk that large volumes of new premiums may have an adverse effect on existing investors is controlled by the ability to apply a Short Term Investment Charge (see 'What happens if you leave the Fund early?').

Other business risks are borne by the Company's Non-Profit Sub-Fund.

We control the risks to the Fund by monitoring risks and taking action to reduce our exposure to the risk, when necessary, establishing appropriate reserves and setting interest rates prudently over time.

If the assets of the Fund are insufficient to pay the guaranteed benefits of Secure Growth Fund policies, other assets of the Company will be used to do this.

The Company also has a solvency risk appetite, which requires it to hold assets greater than the minimum amount it is required to hold by regulation.

What are the charges and expenses?

Expenses are what it costs us to set up and look after your policy and to meet certain guarantee costs. Charges are the deductions taken from your policy to meet our expenses.

All expenses associated with the management of policies invested in the Fund are met by the Non-Profit Sub-Fund. In addition the cost of providing Guaranteed Annuity Rates at retirement is met by the Non-Profit Sub-Fund.

Charges deducted from your policy are paid to the Non-Profit Sub-Fund. Details, including the circumstances in which they may be changed, are specified in your policy terms and conditions.

In the past, additional charges were deducted from the Fund to recompense the Company for the cost of holding capital to cover the regulatory capital requirements of the Fund, if any, not covered by the assets of the Fund itself. No such charges will be made in the future.

What are the excess assets used for?

The excess assets of the Fund (see 'Regular interest rates') are used to pay an interest rate in excess of the return we expect to earn on the Fund's assets. If the size of the excess assets becomes an unreasonably large percentage of the total value of units in the Fund, we will make a special interest addition or add final bonuses to reduce them.

If at any time we believe that the amount of the excess assets is too low then we will take action to increase it, by reducing the regular interest rate.

The excess assets:

- provide us with investment flexibility; and
- enhance the security of policy benefits generally.

Are new policies still being issued?

No new policies are being issued which allow investment in the Fund, although existing policyholders can still top up their plans, and new members can still join existing company pension schemes. Also, some existing policyholders not currently invested in the Fund retain the right to switch their unit-linked investments into the Fund and to pay future premiums into it.

How much profit are our shareholders entitled to?

Shareholders do not receive a share in the investment profits and losses of the Fund, although they are entitled to any profit or loss as a result of differences between actual expenses and the charges made to policies.

How can you find out more?

This guide is a summary of the 'Principles and Practices of Financial Management' ('PPFM') document, which gives a more detailed description of how the Fund is managed.

If you would like a copy, please use the contact details below. Or you can read it on our website **aviva.co.uk/ppfm**.

If, having read this guide, you need more information, please:

- call us using the phone number shown on the documents provided with this booklet;
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Notes

Aviva Life & Pensions UK Limited.

Registered in England No. 3253947.

Registered office: Aviva, Wellington Row, York, YO90 1WR.

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Firm Reference Number 185896.

Telephone 0345 602 9189 – calls may be recorded. **www.aviva.co.uk**

CFPPFMSGF HL04002 01/2018