

Important information

A guide to your with-profits investment and how we manage our **With-Profit Fund**

For customers investing through a With Profits Pension Annuity.

This guide is important as it aims to answer some of the questions you might have about with-profits investments.

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

- an illustration of the level of income you may receive
- your annual statement.

Making sense of it

If you are new to with-profits investments, you may find some of the terms in this guide unfamiliar or a bit complicated. 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**

Calls may be recorded and/or monitored for our joint protection.

Write to us at:

Aviva
PO Box 520
Surrey Street
Norwich
NR1 3WG

You can also use the following link to find out more about our With-Profit Fund at: withprofitsfunds.co.uk

Contents

This guide aims to give an understanding of how our With-Profit Fund works and the approach we take to managing it.

What is a With Profits Pension Annuity?	3
What is an Aviva with-profits investment?	4
With-Profit Fund - at a glance	5
With-Profit Fund - in more detail	6
How smoothing works	7
What are the bonuses?	8
What affects the level of income I get?	9
What guarantees do I have?	9
What else should I know about how you manage the With-Profit Fund?	10
Where can I find out more?	11

What is a With Profits Pension Annuity?

This is one of several options you have to provide an income for your retirement. In contrast to conventional annuities, a With Profits Pension Annuity offers the opportunity for growth by investing your pension fund into our Aviva Life & Pensions UK Limited With-Profits Sub Fund.

Along with your personal circumstances, the amount of money you invest and the options and anticipated bonus rate you choose, your income will depend on the bonuses added to your plan throughout your retirement. In turn, the bonuses depend on the profits and losses of the With-Profit Fund.

You make a choice from a range of starting incomes by choosing an **anticipated bonus rate** on your plan.

- If you choose a lower anticipated bonus rate, your initial income will be lower, but there is greater potential that your pension income will increase in the future.
- If you choose a higher anticipated bonus rate, your initial income will be higher, but there is a risk that your income will fall below its starting level.
- The higher the anticipated bonus rate you choose, the greater this risk is.

We guarantee that the income from your With Profits Pension Annuity will never fall below a minimum amount. This is the income you could have bought at the start of the plan based on an anticipated bonus rate of 0%.

At any time after the first year, you can change your anticipated bonus rate within our limits at the time. We'll recalculate your income if you do this.

What does it mean?

Anticipated bonus rate

At the start of the plan, you choose an anticipated bonus rate of between 0% and 5% in 0.25% steps. Along with a number of other factors, this will set your initial pension income and affect future levels of income. A higher anticipated bonus rate will give you a larger initial income, but increases the risk that your income may go down in future.

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**.
- The Fund invests in a range of different **assets** (including **shares/equities**, property, corporate bonds, gilts, **cash and cash alternatives**), and we may vary these over time. We do this with the aim of achieving balanced returns.
- The main difference between with-profits and other investments is that the value is smoothed 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 top up some of the investment returns in years where investment performance is lower.

Things to consider with a With Profits Pension Annuity

- Your income may fluctuate from year to year depending on the level of anticipated bonus rate you select and the level of bonuses we add.
- Once you have purchased a With Profits Annuity you cannot cash in even if your circumstances change. However, you can convert to a conventional annuity any point after the first plan anniversary.
- If you die in the early years the total income you've received may be less than the original payment you made to buy the With Profits Pension Annuity.

What does it mean?

Low to medium risk investment

Low to medium risk investments are expected to provide better long-term returns than savings accounts, although there is still a risk that the value of the investment could fall. You can find out more about Risk return ratings at [aviva.co.uk/retirement/fund-centre/risk-rating.html](https://www.aviva.co.uk/retirement/fund-centre/risk-rating.html).

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?

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 tend to be riskier than the main types of investments we mentioned above.

What does it mean?

Cash and cash alternatives

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

With-Profit Fund - at a glance

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:

- shares/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 smoothly from year to year rather than being affected by the significant ups and downs of the stock market.

We explain smoothing in greater detail on page 7.

Bonuses

We decide the bonuses you receive.

We share out the returns the fund earns through a system of bonuses. There are different types of bonuses:

- **Regular bonus**
We decide the regular bonus at least once a year.
- **Additional bonus**
You may also receive an additional bonus.
- Bonuses can vary and are not guaranteed

We explain more about bonuses on page 8.

With-Profit Fund - in more detail

How do you invest my money?

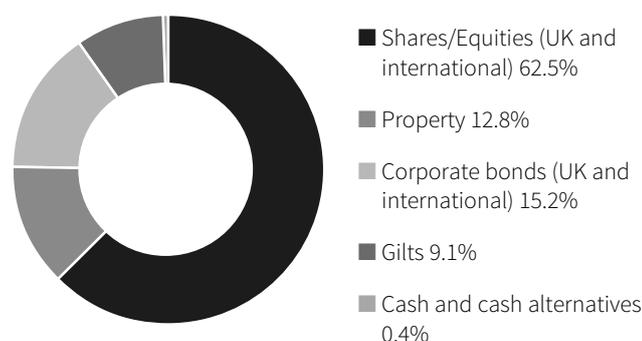
In simple terms, we invest your money into a broad range of assets. The asset mix diagram below shows which assets the fund invests in and the percentage of the fund that is invested in each.

The level of your income will be affected by the mix of assets backing your annuity, how each asset performs and the effects of charges. You can find the charges for your plan in the illustrations you've received.

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

We hold around 75% of the fund in higher risk assets, such as **shares/equities** and **property**. The rest is in medium and lower risk investments, such as **gilts, corporate bonds, cash and cash alternatives**.

This diagram shows the asset mix of the Aviva Life & Pensions UK Limited With-Profits Sub-Fund as at December 2017.



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

From time to time, this fund may include investments in other Aviva group companies. However, this will not have a direct impact on the asset mix backing your annuity.

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 With-Profit Fund 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 may take longer to buy and sell than other types of investment.

Gilts

Gilts can include bonds issued by the UK government as a way for them to borrow money, usually for a fixed term. The government pays interest on the loan. Gilts issued by the UK government are generally seen as lower risk investments than bonds issued by companies (corporate bonds).

Corporate bonds

Corporate bonds are issued by UK and international companies as a way for them to borrow money. The company pays interest on the loan and promises to repay the debt at a certain point in time.

They are seen as riskier investments than UK gilts. This is because companies are more likely to fail to repay the loan than the UK government. However, they often offer a higher rate of return to balance out this higher risk.

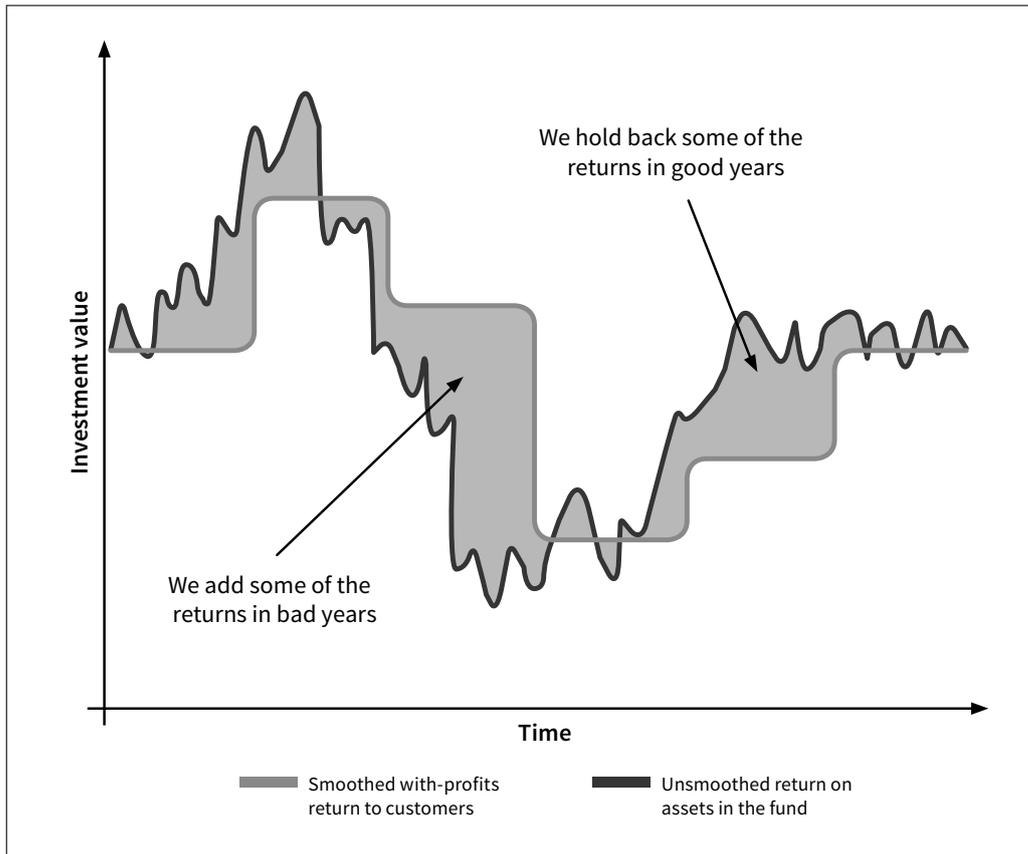
Cash and cash alternatives

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

How smoothing works

With smoothing we keep back some of the returns the With-Profit Fund earns in good investment years and use them to help pay bonuses in poor investment years. Losses made in poor investment years may also reduce returns 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. We show this 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 shown by the blue line in the diagram.



This diagram is for illustration purposes only.

Things you need to be aware of

There may be times when smoothing can't fully protect your pension income. 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 won't add bonuses.

Over the lifetime of the contract, the amount we aim to pay to With-Profits Pension Annuity planholders will, on average, be similar to the contributions paid plus the profits earned in the planholders' share of the fund. We use the **additional bonus** to share out this money.

Although we aim to protect planholders from market fluctuations, our ability to do this depends on the profits earned over a number of years. This means that we can't guarantee this aim.

There is further information on this under the 'What affects the level of income I get?' section on page 9.

What are the bonuses?

We add your share of the returns earned by the With-Profit Fund to your pension income through bonuses. There are two main types of bonus; **regular bonus** and **additional bonus**. We show these bonus rates in your annual statement. These rates will vary over the period of your investment.

We decide the bonuses by looking at:

- how the fund has 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

We work out how much of the available profits to pay out in the form of bonuses and how much to carry forward to future years. Part of the profits is shared out through regular bonus. We decide regular bonus rates once a year. The regular bonus may increase the guaranteed minimum income for your plan. Once a regular bonus has been added to your plan it cannot be reduced or removed. This does not mean that your pension income will always go up each year. Your new basic income takes into account the new regular bonus, allowing for the level of anticipated bonus rate you selected.

The regular bonus rate is expected to be more stable than the additional bonus rate.

Things you need to be aware of

- If the new regular bonus rate is more than your anticipated bonus rate, your basic income may increase. If the new regular bonus is less than your anticipated bonus rate your basic income may decrease.
- 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 plan each year.
- It's likely that bonuses will be smaller in poor investment years than in good years.

Additional bonus

Depending on the returns earned by the fund to date, we may also apply an additional bonus. Any additional bonus will be added to your basic income at the start of the plan year and will determine your total income for that particular plan year.

We review the additional bonus at least once a year, but possibly more frequently. When we set the additional bonus rate, we take into account many of the same factors that we do for the regular bonus rate. However, with the additional bonus rate, there is a greater emphasis on the profits actually earned in the planholders' share of the fund over recent years.

The additional bonus rate will be smoothed annually as we expect planholders to prefer a steady income to one which could go up and down from year to year.

Things you need to be aware of

- The additional bonus rate is likely to change more frequently and by a greater amount than the regular bonus rate.
- The additional bonus rate is not guaranteed and may change at any time.
- Any additional bonus will only apply for that plan year and is not a permanent addition to your income.

What affects the level of income

I get?

The amount of regular income you get will depend on your personal circumstances, the amount you invest and the options and anticipated bonus rate you choose, plus:

- how the fund has performed during the time you have invested with us
- planholders' mortality
- our charges.

Fund performance

As we mentioned in the section explaining the asset mix on page 6, 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. As the With-Profit Fund invests in a broad range of assets, if one type of asset is performing poorly, another may perform well. This may in turn help to balance out the performance overall.

If you'd like more information about With-Profit Fund performance, please visit [aviva.co.uk/adviser/documents](https://www.aviva.co.uk/adviser/documents).

Planholders' mortality

We may make allowances for the way in which planholders' **mortality** affects the fund.

What does it mean?

Mortality

Mortality refers to the number of deaths within a given period. Some planholders will die earlier than expected and others will live longer than expected.

Charges

Your annuity has charges for administration, expenses, investment management and any financial adviser commission or charges (where applicable). The difference between the charges we set and the expenses we have to pay goes towards our business profit.

You can find the charges for your plan in the illustrations you've received. Please see your financial adviser for more information on charges.

What guarantees do I have?

The With Profits Pension Annuity offers some guarantees on the amount of money you'll receive.

Any regular bonus added will have a permanent effect on your pension income. Once a regular bonus has been added to your plan it cannot be reduced or removed. This does not mean that your pension income will always go up each year, as the new pension income will also take your anticipated bonus rate into account.

We guarantee that we will not change your pension income more than once a year. We may take an additional yearly charge from asset share towards the cost of these guarantees. This charge is reviewed at least annually and is currently zero.

Asset shares are an assessment of with-profits planholders' fair share of what has been earned in the fund, allowing for the payments that have been made and actual investment returns.

We also guarantee that your pension income will never fall below a minimum amount, which is the pension income you could have bought at the start of the plan based on an anticipated bonus rate of 0%.

Converting to a conventional annuity

At any time after a year, you can choose to convert your With Profits Pension Annuity to a conventional annuity, which provides a fixed amount of income. This could be more or less than your current With Profits Pension Annuity income and you may get less than your current guaranteed amount. The terms of such a conversion will depend on the value of your investment and the conventional annuity rates available at the time.

If you seek financial advice on whether to convert, we are not able to pay an adviser charge from the annuity.

You can find further information in the Key Features document within the 'How flexible is it?' section.

What else should I know about how you manage the With-Profit Fund

With-Profits Committee

Our customers are at the heart of everything we do and we are fully committed to treating you 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](https://www.aviva.co.uk/wpcommittee).

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

There are a few things which could affect the funds. We call these business risks. These may change over time and may include:

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

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

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

The inherited estate

Our With-Profit Fund is supported by more money than we expect to pay out to existing policyholders. The extra money is known as the inherited estate and we use this to support smoothing and guarantees.

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

- the flexibility to invest in a wider range of assets
- a cushion of extra security to protect investors when investment returns are low
- a greater ability to smooth the returns you receive.

The estate also provides **solvency capital** for our with-profits business,

and will normally absorb any profits or losses caused by the business risks (described above).

What does it mean?

Solvency capital

Capital that allows us to demonstrate that the assets of our With-Profit Fund are worth more than its liabilities and that we'll be able to meet our obligations even if we suffer losses.

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 about how we run the fund are fair to everyone. This means we have to balance the interests of:

- policyholders whose investments start at different times
- policyholders who leave the fund and those who keep their money invested in it
- our shareholders.

We take all this into consideration in the way we run the fund. We allocate at least 90% of the returns on the With-Profit Fund 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.

Regulations

Aviva Life & Pension UK Limited are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and must follow UK law. If laws or regulations that affect financial services change in the future, this may affect your plan.

Tax

Any growth in the With-Profit Fund will be largely free of tax on any income and capital gains. Some investment returns may be received with tax credits, or after tax deductions, which cannot be reclaimed. We take this into consideration when we set the bonus rates in line with our understanding of tax rules and regulations. Tax law may change in the future.

How tax affects your investment and your income 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 helped you understand how our With-Profit Fund works.

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 on our website: [aviva.co.uk/ppfm](https://www.aviva.co.uk/ppfm), under the heading 'Aviva Life & Pensions UK Limited With-Profits Sub-Funds' and selecting the document 'PPFM for Aviva Life and Pensions UK Limited With-Profits Sub-Fund.'

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 also invest in a With-Profits Fund through an investment bond which has a separate guide. You can see this on our website: [aviva.co.uk/ppfm](https://www.aviva.co.uk/ppfm)

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 **0800 056 1643**.

Calls may be recorded and/or monitored for our joint protection.

If you have any questions about investing in our With-Profit Fund, 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 this is a suitable investment for you.

In addition, The Money Advice Service has a website dedicated to financial education, which includes information about with-profits investment, [moneyadviceservice.org.uk](https://www.moneyadviceservice.org.uk)

Aviva Life Services UK Limited. Registered in England No. 2403746. Aviva, Wellington Row, York, YO90 1WR.
Authorised and regulated by the Financial Conduct Authority. Firm Reference Number 145452.

aviva.co.uk

AN01010 02/2018



© Aviva plc