

For customers

Our unit-linked funds

This document is intended for use by individuals who are familiar with investment terms. Please contact your financial adviser if you need an explanation of the terms used.

If your personal circumstances mean you need any additional support or if you'd like a large print, Braille or audio CD version of this document, please call 0345 610 0010 9.00am - 5.00pm Monday to Friday, (call changes will vary) or visit aegon.co.uk/onlineform.

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How our unit-linked funds work 3

- What are unit-linked funds? 3

The unit price 3

- How we work out the unit price 3
- Fund value 4

How we buy and sell your units 4

- At what point do I buy and sell units in my chosen investment fund? 4
- The box management system 5

Charges 5

- Contract charges 5
- Fund charges and expenses 5

Taxation 5

- Pension funds 5
- Life funds 5

Managing our unit-linked funds 6**Use of discretion** 6

- Areas where we use our own discretion 6
- Unit price rounding 6
- Internal deals 6
- Investment strategy and performance monitoring 6
- Emergency situations and significant events 7
- Deferring investments 7
- Launching funds and seeding with capital 7
- Securities lending 7
- Closing, winding up or merging funds 7

Correcting pricing errors 8**Complaints process**

- Our approach to addressing a breach of policy conditions 8

More information 9

How our unit-linked funds work

This guide explains how our unit-linked pension and life funds work, how we manage them and how we balance the interests of our different customers. We set out how our unit-linked funds operate and provide an explanation of our operational practices.

This guide is about Aegon's insured pension and life funds. It doesn't cover other non-insured collective investments and direct investments available through Aegon Retirement Choices (ARC), The Aegon Platform or Aegon One Retirement (AOR).

What are unit-linked funds?

A unit-linked fund is linked to a plan issued by an insurance company. It allows investors to combine their money with other planholders to create a 'pooled' fund, and you buy a share of the fund in the form of units. The number of units you get depends on how much you invest and the price of the units at the time you buy. The fund can invest in a variety of different investment types, like company shares and bonds.

When we say unit-linked funds in this guide, we mean insured pension and life funds. With our insured funds, you buy units in Aegon's insured fund and your contract is with Aegon. For example, if you're invested in the Scottish Equitable BlackRock Balanced Managed fund, you'll be allocated units in our version of the fund and Aegon will invest in the underlying BlackRock fund on behalf of all investors in the Aegon fund.

These are different from other pooled funds like Open Ended Investment Companies (OEICs) and Unit Trusts where you buy units in the underlying fund directly and your contract is with the fund provider.

Please be aware the value of an investment can fall as well as rise for a number of reasons, for example market and currency movements. You may get back less than you originally invested.

The unit price

A unit-linked fund is divided into equal units and you can buy and sell these units within the fund. The value of one unit (the unit price) depends on the fund's value as a whole, so it will change from day to day.

How we work out the unit price

We value and price our unit-linked funds based on a market valuation at 12 noon every day that the London Stock Exchange is open. For some funds, the valuation point of the underlying assets could be different. This depends on when the underlying fund or asset is priced.

The value of the fund assets at this valuation point is divided by the total number of units in the fund to arrive at the daily unit price. We value the assets of each of our funds, wherever we can, by using market data from recognised sources*.

*Please see the 'Use of discretion' section on pages 6 and 7 for more information.

Fund value

We calculate a fund value, sometimes called the net asset value (NAV), in two different ways.

A **growing fund** is when there are **generally more people buying units in the fund than selling units**. We calculate the fund value as what it would cost to buy the entire fund's assets at the valuation point.

This includes all associated dealing costs and stamp duty. We sometimes call this the 'creation' or 'offer' price.

A **shrinking fund** is when there are **generally more people selling units than buying them**. We calculate the fund value as the amount that would be realised if we sold the entire fund's assets at the valuation point.

This includes the deduction of all dealing costs. We sometimes call this the 'cancellation' or 'bid' price.

This approach protects the unit price for those already invested in the fund from the activities of other buyers and sellers.

How we buy and sell your units

At what point do I buy and sell units in my chosen fund?

When we receive an instruction from you to buy, sell or move your units, we use a valuation point. This is currently 12pm on days the London Stock Exchange is open.

- If you want to buy units, we'll use the next valuation point after we receive your instruction.
- If you want to sell units, we'll use the valuation point, 2 days after we receive your instruction. This means if we receive your instruction on Monday, the price is calculated at 12pm on Wednesday.
- If you want to move your investment from one fund to another, we'll use the valuation point the day after we receive your instruction if we get your instruction before 12pm. If we get your instruction after 12pm, we'll use the valuation point 2 working days later. This means if we receive your instruction before 12pm on Monday, we'd invest in your new selected funds at 12pm on Tuesday. If we didn't receive your instruction until after 12pm on Monday, we'd invest in your new funds at 12pm on Wednesday.

There may be occasions when we can't meet the timescales mentioned above, for example if the instruction isn't clear or isn't from an authorised person. We also reserve the right to delay the cashing in or switching of units, please see the Deferring Investment section on page 7 for more information.

Please note the process is different for insured funds on Aegon Retirement Choices (ARC) and Aegon One Retirement (AOR). For more information, please see the [Aegon Retirement Choices – charges guide](#) or our [Aegon One Retirement – charges guide](#).

The box management system

To make things more efficient and minimise costs, we operate a system known as 'box management'. When planholders buy and sell units, we combine all planholder deals into a single buy or sell transaction. This single transaction is placed with us (as the 'box manager'), and we then hold a positive or negative stock (or 'box') of units.

The Aegon box manager deals directly with the fund to buy or sell units as appropriate. There's more information in the 'Use of discretion' section on page 7.

Aegon, as box manager, doesn't seek to make profits from active box management. Any exposure to funds is to ease the smooth management of funds.

Charges

Contract charges

All the details on contract charges are in your plan schedule booklet and other documents given to you. You can also find details about when and by how much we may vary your contract charges in these documents.

We apply most contract charges that apply to you, via a deduction of units or cash either from your initial investment, from your ongoing unit holding, or as a deduction to your final payment.

It's slightly different for ARC and AOR. ARC and AOR product, and adviser charges are taken directly from the Cash account, while fund charges are applied via a deduction of units, as above.

Fund charges and expenses

There are also other charges and expenses applied to unit-linked funds. Unit prices include a daily allowance for the annual management charge (AMC) and additional expenses. These additional expenses are calculated each year to cover costs like trading fees, legal fees, auditor fees, administration fees and other operational expenses. Other operational expenses include costs paid by us (Aegon) to third parties.

Taxation

We're taxed each year by HM Revenue & Customs (HMRC) at a company level. This means that HMRC doesn't apply a tax charge to each individual fund. We use our judgement to fairly share out the tax bill between each of our funds and between different planholders. Our general principle is to treat the funds as far as possible as if they were stand-alone entities. We apply this treatment at the lowest level of funds and not at a fund-of-fund level. The rules for the taxation of funds may change over time, and we will change our calculations when required by changes in legislation.

Where financial transaction taxes (such as stamp duty in the UK) apply, these costs will be paid by the funds involved.

Pension funds

The tax on investment income and capital gains doesn't apply to any of our unit-linked pension funds under current UK tax legislation. However, pension funds may suffer withholding tax on some foreign income.

Life funds

In our daily calculation of a fund's net asset value for life funds, we make provision for tax payable by the fund based on our interpretation of current UK tax legislation.

The calculation of our tax provision covers:

- **Investment income**

This is taxed at the relevant tax rate. Equity dividends are not usually taxed as a tax has already been charged on the profits, giving rise to the dividends.

- **Capital gains**

A capital gain happens when an asset is sold, or could be sold, at a value greater than it was bought – subject to any allowance for inflation where applicable. For capital gains we make a charge for tax at the relevant tax rate.

- **Capital losses**

A capital loss happens when an asset is sold, or could be sold, at a value less than it was bought. Capital losses are used to offset capital gains. If capital losses are greater than gains, we carry the excess losses forward to offset future capital gains.

We generally don't rebate tax relief on life fund expenses back into the fund.

This information is based on our understanding of current taxation law and HMRC practice, which may change.

Managing our unit-linked funds

When we manage our unit-linked funds there are certain areas that come under our discretion and we can use our judgement to decide what action to take. You can find details of this in your individual plan terms and conditions. The key principle we follow when using our discretion is treating customers fairly. Any changes to the way we manage our funds must be made by the appropriate committee within our governance structure.

Use of discretion

Areas where we use our own discretion

We've already mentioned some of the circumstances where we use our own judgement, and we may also apply discretion to the following areas:

Unit price rounding

- Our published unit prices follow the normal rules of rounding to the nearest digit. We publish the prices on our website and generally round to two decimal places.

Internal deals

- If we internally transfer units or assets between funds, we'll make sure that we transfer on terms that are fair to both funds and share any benefits of the internal deal equally between them.

Investment strategy and performance monitoring

- Aegon Asset Management, which is a sister company within the Aegon Group, manages and administers some of the internal unit-linked funds of Aegon. (Aegon has a global asset management operation, organised into globally aligned investment platforms, with Aegon Asset Management focused on third-party wholesale and institutional clients across the UK, US, continental Europe and Asia).

Source: Aegon Asset Management, January 2024

We also offer you the option to invest in funds managed by external fund managers. Aegon has no direct control over funds managed by external fund managers.

Regardless of the fund manager, Aegon's Management Investment Committee and Fund Governance Group monitor and review fund performance for all unit-linked funds. This process aims to ensure that:

- the fund groups which manage our unit-linked funds meet our requirements.
- there are no significant organisational or structural issues that could affect fund performance.
- the funds are being run in line with their stated objectives (where applicable).

Emergency situations and significant events

- Exceptional circumstances, such as significant market disruption, or an emergency situation could affect the unit price and valuation process. We might have to apply our discretion in setting a price for unit prices and/or change from stated fund investment strategies, or temporarily defer unit transactions or unit pricing. If this happens, we aim to treat existing and future customers fairly.

Deferring disinvestments

- We reserve the right to defer (delay) the cashing-in or switching of units (disinvestments) for a period of typically up to 1 month, or in the case of property investments this can be up to 12 months. The price we'd then use for the transaction would be the price at the end of the deferral period.

Launching funds and seeding

- It's a normal part of our business to launch new funds from time-to-time to respond to changing planholder needs. To make sure that new funds have enough money in them to make them viable, we 'seed' them with money. Occasionally, we use existing unit-linked funds to supply this money. We return the seed money once there is sufficient planholder investments in the new fund to allow it to operate efficiently.

Securities lending

- Some of our funds engage in securities lending. This is a process used by some underlying funds to generate additional returns by lending some of the shares and bonds it holds to another financial institution (e.g. a bank). There's a small risk that the financial institution will fail to pay back the shares or bonds it lends at the end of the loan. To minimise this risk, the lending fund conducts securities lending with only select financially stable institutions. The lending fund also holds indemnity insurance as a safeguard.

Closing, winding up or merging funds

- We reserve the right to close a fund to future investment, wind it up or merge it. If we do this, we take reasonable steps to let planholders know about it to allow them to consider a range of options. We aim to give planholders 60 days written notice where we can. There may be times when this isn't possible. If this happens, we'll contact impacted planholders as soon as possible.

Correcting pricing errors

We make every effort to calculate prices accurately and we have processes in place to reduce errors. Sometimes the unit price can be incorrect. This can be due to the valuation process, because of timing delays, or because the underlying fund manager makes an error in their price calculation.

Our commitment is to put the planholder back into the position they would've been in had the incorrect unit price not happened. This position is subject to materiality limits, based on guidance from the Association of British Insurers (ABI).

We consider a significant error to be an impact of 0.5% or more on the unit price on a specific day. The considerations and principles we use in applying any correction are in line with the ABI and Financial Conduct Authority (FCA) guidelines and our commitments to treating our customers fairly.

In general, we'll correct planholder records when the error results in a price that's more than 0.5% different to the correct price and the impact on the planholder's fund value is more than £10. In exceptional circumstances we may correct planholder records when the error results in a price that's more than 0.1% different to the true price and the impact on the planholder's fund is more than £10.

When we identify any pricing errors:

- We record the error and assess how significant the impact to our planholders is.
- We aim to correct the error as soon as possible in line with predetermined limits.
- We also aim to compensate clients accordingly in cases where an error has resulted in material loss.
- We'll address the cause of the error as soon as we can.
- We'll correct the effect on the unit price immediately rather than gradually over time.
- We may seek repayment from current and former planholders who have been materially advantaged by a pricing error.

Complaints process

We hope you never have to make a complaint, but we have a complaint-handling procedure in place to make sure the process is clear and accessible to any planholder who needs it. You can find full details on our website at aegon.co.uk/support/complaints.html

Our approach to addressing a breach of policy conditions

If we breach the policy conditions or other planholder commitments, we'll assess how material the breach is in financial terms. This means deciding whether the effect is of a sufficient level to justify action. We may have different materiality levels for different situations. We'll then take appropriate management actions, considering both the retrospective and future effect on the planholder.

More information

We've given you an overview here of how we operate our unit-linked funds. This guide doesn't replace or take precedence over plan terms and conditions or other contract-specific literature, so you may want to refer to these for more information.

If you'd like more information, please speak to your financial adviser. If you don't have a financial adviser, visit moneyhelper.org.uk to find the right one for you.

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