



For customers

Our unit-linked funds

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

March 2022

Contents	Page
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, 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	
• Dispute resolution and breaches of policy conditions	8
More information	9



How our unit-linked funds work

In this guide we explain how our unit-linked pension and life funds work, how we manage them and how we balance the interests of our different unit-linked fund planholders. We set out the main criteria and standards by which our unit-linked funds operate. This document is intended to provide an explanation of our operational practice.

This guide applies to 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 a fund which is linked to a plan issued by an insurance company, which allows investors to combine their money with other planholders to create a 'pooled' fund. Instead of buying underlying securities like bonds or shares, 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 assets, such as shares and bonds.

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

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 originally invested.

The unit price

A unit-linked fund is divided into equal units and the planholder buys and sells these units within the fund. The value of any 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 feasible, by using market data from recognised sources*.

*Please refer to the 'Use of discretion' section on pages 6 and 7 for additional information.



Fund value

We calculate a fund value, often referred to as the net asset value (NAV), in two different ways.

For a **growing fund**, where there are **generally more buyers of units in the fund than sellers**, 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. This is sometimes called the 'creation' or 'offer' price.

For a **shrinking fund**, where there are **generally more sellers**, 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. This is sometimes called the 'cancellation' or 'bid' price. This approach protects the unit price for those already invested in the fund from the activities of 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 your investment instruction, we'll allocate units to your plan at the unit price determined at the next valuation point. This is currently 12 noon on days that the London Stock Exchange is open.

For unit disinvestments, we'll normally cancel your unit holding using the price calculated at the 12 noon valuation point two days following receipt of your written instructions. In other words, if we receive your instruction electronically or by letter on Monday, you'd get the price calculated at 12 noon on Wednesday.

If you want to move your investment from one fund to another, you need to complete and send us an investment switch instruction. Depending on what time of day we receive your instruction we'll then sell your current unit holding. If we receive your instruction **before 12 noon**, you'll receive the valuation at noon on the next working day. If we receive it **after 12 noon**, you'll receive the valuation at noon 2 working days after. In both cases we'll simultaneously invest into your new selected fund(s) at that point.

If an instruction isn't clear, or doesn't seem to be from an authorised person, this will affect when and if we process your requested transaction. For an exception to these practices, please see the 'Deferring disinvestments' paragraph in the 'Use of discretion' section.

Please note that this 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 improve efficiency and minimise costs, we operate a system known as 'box management' for planholders' buying and selling of units. Rather than each planholder dealing directly with the fund, 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 will then transact directly with the fund to buy or sell units as considered appropriate. This is discussed further in the 'Use of discretion' section on page 7.



Aegon, as box manager, does not seek to make profits from active box management. Any exposure to funds is purely to facilitate the smooth management of funds.

Charges

Contract charges

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

We apply most contract charges, as they 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.

However, 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

In addition to contract charges, there are a number of charges and expenses incurred by unit-linked funds. Unit prices include a daily allowance for the annual management charge (AMC). Expenses are also applied directly to funds as part of the unit pricing process. Some examples include custody and audit fees, overdraft interest, dealing costs and brokerage fees, registration and compliance fees.

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 fund individually. As a result, we have to use our judgement to fairly apportion 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. This treatment is applied 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 arises when an asset is sold, or could be sold, at a value greater than its purchase price – 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 arises when an asset is sold, or could be sold, at a value less than its purchase price. 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.

Managing our unit-linked funds

In the management of our unit-linked funds there are certain areas that come under our discretion – in other words, we 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 exercising discretion is treating customers fairly. Any changes to the way we manage our funds must be made with 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 convention of rounding to the nearer digit. We publish the prices on the web and generally use an accuracy level of two decimal places beyond the penny.

Internal deals

- If we internally transfer units or assets between funds, we'll make sure that the transfer is done 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). We also offer you the option to invest in a number of funds managed by external fund managers. In contrast to our internal funds, Aegon has no direct control over funds managed by external fund managers.

- Regardless of the manager, investment performance is monitored and reviewed for all unit-linked funds by Aegon's Management Investment Committee and Fund Governance Group. This governance 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, significant events

- There may be exceptional circumstances, such as significant market disruption, that can affect the unit pricing and valuation process where we'll need to intervene. In an emergency situation we might, for example, have to apply our discretion in setting a price for unit prices and/or diverge from stated fund investment strategies, or temporarily defer unit transactions or unit pricing. In our response to such situations and during periods of uncertainty, we aim to treat existing and prospective customers fairly.

Deferring disinvestments

- We reserve the right to defer 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 with capital

- 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 sufficient money in them to make them viable, we 'seed' them with capital. Occasionally, existing unit-linked funds are used to supply this capital. This seed money is returned once there is sufficient planholder investment in the new fund to allow it to operate efficiently.

Securities lending

- Some of our funds engage in securities lending, 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, or to wind it up or merge it. In doing so, 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 practicable.

Correcting pricing errors

We make every effort to calculate prices accurately and we have a rigorous validation process in place to minimise instances of error. Sometimes miscalculations can occur in the pricing of units either in the valuation process or because of timing delays, or through the underlying fund manager making an error in their price calculation.

Our commitment is to put the planholder back into the position they would've been in had the pricing error not occurred. 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 such correction are in accordance 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 true price and the impact on the planholder's fund value is at least £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 at least £10.

When we identify any pricing errors:

- We record the error and assess the significance and impact to our planholders.
- We aim to correct the error as soon as possible in line with predetermined tolerances.
- 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 practicable.
- We'll correct the effect on the unit price immediately rather than gradually over a period of 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 <https://www.aegon.co.uk/support/complaints.html>

Dispute resolution and breaches 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 take precedence over plan terms and conditions or other contract-specific literature, so you may want to refer to these for more information.

[Pensions](#) | [Investments](#) | [Protection](#)



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