

Consumer Guide Unit-Linked Funds

Sun Life Assurance Company of Canada (U.K.) Limited



Sun Life Financial
of Canada

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Introduction

This guide explains how our unit-linked funds work and our current approach to managing them. In particular, this guide describes how we:

- manage the unit-linked funds on behalf of our customers;
- meet our obligations to customers;
- respond to changes in the business and economic environment; and
- make sure there are good outcomes for all customers.

Your plan document will have more information on how your plan works. The content of this guide does not form part of, or change the terms of your plan.

Sun Life Financial Inc. (the ultimate parent company) is a leading international financial services company, with a long history and excellent financial strength. We are committed to our customers and hope that you find this guide useful.

Katherine Garner

Chief Executive Officer

Sun Life Assurance Company of Canada (U.K.) Limited

Which funds are covered in this guide?

This guide provides information on all unit-linked funds available in Sun Life Assurance Company of Canada (U.K.) Ltd ("The Company") within the UK and Ireland which consists of the following two groups:

- Funds available to plans originally sold by Lincoln Assurance Limited, Cannon, Trident Life, Imperial Life, Laurentian Life, Liberty Life, British National Life Assurance and other former companies of SLFC Assurance (UK) Ltd including *i2Live* plans, collectively referred to as **SLFC** plans.
- Funds available to plans originally sold by Confederation Life Insurance Company (UK) Limited ("Confederation Life") and plans originally sold by Sun Life Assurance Company of Canada (U.K.), collectively referred to as **SLOC** plans.

What is a unit-linked fund?

A unit-linked fund is a pool of assets, provided by an insurance company, in which many customers invest. You may have bought a unit-linked life insurance plan or a unit-linked pension plan from us, and in most respects our unit-linked funds are managed in the same way for both types of plans. Where there are differences in the way that unit-linked funds are operated between the two types of plans, this guide will highlight these.

Investing in a unit-linked fund allows you to invest in a much wider range of assets than you could buy yourself and, along with the other investors in your fund, you share in the returns achieved on all the assets within the fund. These assets may include equities, government and corporate bonds, property, cash-like instruments and derivatives.

Each unit-linked fund will have a specific investment objective and its assets will usually be managed by specialist fund managers.

Each fund is divided into units and these are priced either daily or weekly. The unit price determines how many units you are allocated when you invest money in the fund and how much money you will receive when you cash in your units.

You can usually invest in more than one fund. Each fund has its own mix of assets, investment purpose and level of risk.

The value of your units is linked to the performance of the underlying assets of the fund which can go either up or down in value except if you have invested in one of our unit-linked funds that has a minimum guaranteed return.

The value of your investment

The value of your investment in a fund is the number of units currently allocated to you times the price of each unit.

How do you work out the prices at which you buy and sell units?

Our aim when we work out unit prices is to make sure all customers receive good outcomes. This includes:

- providing a fair value of the underlying assets in a fund;
- making sure that customers get a fair price when they buy and sell their units;
- where appropriate, allowing for charges, expenses and taxation; and
- using a method to price units that is clear and fair to:
 - customers and our shareholder;
 - customers of different funds; and
 - different groups of customers.

We may change these methods if circumstances alter to make sure customers continue to receive good outcomes.

How do you value unit-linked funds?

We value all of the assets held in a unit-linked fund. We use different valuation methods for each type of asset. For example, if an asset is listed on the stock exchange, we use the quoted price to value it. For property assets we use professional surveyors to value the assets. The basis used to value the assets can change depending on whether the fund is expanding or contracting.

A fund is expanding when customers are buying more units than they are selling. Under these conditions, we normally value the assets at the current market price at which we could buy the underlying investments in the fund, allowing for taxes and other charges.

A fund is contracting when customers are selling more units than they are buying. Under these conditions, we normally value the assets at the current market price at which we could sell the underlying assets in the fund allowing for taxes and other charges.

Whether a fund is expanding or contracting affects how costs are allocated.

How do you work out the price of each unit?

The unit price is worked out by dividing the total value of investments in the fund by the number of units in the fund. For example, if there were 10,000 units held in a fund worth £20,000, then the price of each unit would be (£20,000 divided by 10,000) = £2 (or 200 pence) a unit.

What is the difference between the buying and selling prices?

Depending on the type of fund you are invested in, the fund may be either 'dual priced' or 'single priced'.

In a dual priced fund, units are allocated to you at the 'offer price' and are sold at the 'bid price'. The difference between the bid and offer price is also known as the 'bid/offer spread' and the difference contributes to the cost of administration. The bid price is usually the same as the unit price and is usually 5% less than the offer price (although some funds have higher or lower bid/offer spreads).

In a single priced fund, units are bought and sold at the same price (the unit price).

How often do you update unit prices?

For most of our funds, we work out the unit prices every business day but for some, the price may change less often e.g. weekly.

We calculate the unit prices on the value of the funds at close of business. We work out the unit price of the following funds once each week:

- Pension Guaranteed Fund.
- Irish Pension Cash Fund.
- Irish Pension Managed Fund.
- Irish Managed Fund (Life).

How can I check the value of my investment?

We will send you a statement once a year that shows how much your allocated units are worth. The statement also shows the number of units you are allocated in each fund.

For more information on our funds, including the most recent unit prices and past performance of our funds, please visit the fund hub in the unit-linked fund information section of our website www.sloc.co.uk.

You can call our customer telephone numbers provided on the last page in the section "More Information".

When you make changes to your plan

What prices will you use if I switch my investment from one fund to another?

When you switch funds we sell units for you at the bid price and allocate units to you at the bid price. This means that if your plan has a bid/offer spread charge for unit purchases, you do not suffer another such charge when switching units.

Will I incur any other buying or selling charges if I switch funds?

We do not currently charge you to switch from one fund to another. We may review this policy in future.

What price will you use if I cash in my plan?

When you cash in your plan we sell units for you at the unit price. For dual-priced funds, this will be the bid price. For single priced funds, this will be the unit price.

What date will you use if I switch or cash in my plan?

SLOC plans

We use the unit price applicable on the day we receive all of our requirements from you.

SLFC plans, excluding i2live

For instructions received by post, we use the unit price applicable on the next working day after we receive all of our requirements from you. Instructions accepted via email or fax will be based on unit prices applicable two working days after receipt of all our requirements.

This means we cannot give the exact prices that would be used until the following working day or two working days later as appropriate.

i2live plans

We use the unit price applicable the day after we receive all of our requirements from you.

How quickly will I receive the money when my plan ends?

Once we have received all of our requirements from you, we will aim to send you a cheque or transfer your money within five working days. You need to allow time for the post to arrive or for your bank to credit your account.

Charges on your investment

What charges are taken from my plan and directly from the fund?

Fund charges

Annual management charges – Unit prices include a daily allowance for the annual management charges that apply to your particular plan. For some SLOC products there is an additional fund charge based on the income of the underlying fund.

Pooled fund expenses – A pooled fund is a fund in which at least two investors pool their funds in an investment account. Our unit-linked funds may invest in pooled funds such as Unit Trusts or Open Ended Investment Companies (also called “OEICs”). These provide a means by which your investments can benefit from investment in larger asset pools or speciality asset types. Providers of these pooled funds usually incur various costs, including a charge for their administration, audit and dealing charges and we take these charges into consideration in setting unit prices.

Fund manager fees – For funds available to SLFC plans, fees charged by the fund manager for managing the assets are reflected in the charges taken from the fund. For funds available to SLOC plans fees charged by the fund manager are paid for by the Company.

Custody charges – Fees paid to the plans custodian for safekeeping of your plans assets are charged to the fund.

Other fund related charges – Funds available to SLFC plans, other than i2Live funds are charged costs incurred in the management of the investments.

Plan charges

Customer unit allocation – When a transaction (other than a switch) is made in a unit-linked fund we may apply an allocation rate and the bid/offer spread. The allocation rate on your plan states the percentage of each premium used to buy units.

Other plan charges – You may pay a one-off or regular plan fee, which is paid for by cancelling units. If your plan provides insurance protection against death or disability, it may be subject to other charges, such as charges for life insurance coverage or for any supplementary benefits.

Your plan documents will explain the charges that apply.

We showed an estimate of the effect of these charges in any illustration we may have given you when you bought your plan and you can also request a projection of future benefits to help you assess how well your plan is performing.

Are there circumstances in which these charges may be changed?

We may make changes if the cost of managing the fund changes. We will only make changes to the bid/offer spread, annual management charges and plan fees with the appropriate approval from our Board of Directors and usually after giving you one month's notice. We will make sure that any changes are fair to our customers.

How do these charges affect my investment?

These charges will reduce the value of your plan. Your annual statement will show the current value of your plan and for pension plans the expected future value of your pension.

Tax on your investment

How are unit-linked funds taxed?

Many of our unit-linked funds are subject to taxation. Depending on the type of assets in a fund, this may include stamp duties, foreign withholding taxes and property taxes.

If your plan is a life insurance plan it will invest in unit-linked life funds ("Life funds"). A pension plan would be invested in unit-linked pension funds ("Pension funds").

Life funds are also subject to taxation on investment income and capital gains.

Pension funds are not charged tax on their investment returns, but certain pension equity funds suffer withholding taxes on dividends. Where excessive tax is withheld the excess is reclaimed and credited to the fund. Withholding tax recovered is paid into the fund when received.

Life funds

The overall aim in allowing for tax charges on Life funds is to tax each fund on a standalone basis. This means that tax is calculated as if each fund were a separate entity such that the fund's tax charge is determined by the profile of that particular fund alone. For funds which invest into other funds, the tax charge is the sum of the tax charges in the underlying funds so an investor in such a fund is taxed in the same way as an investor in the component funds.

In particular we aim to:

- make sure that the tax charges are shared fairly between different groups of customers, particularly those investing in different kinds of assets but also between those continuing and terminating customers;
- make sure that the tax charges are shared fairly between customers and shareholders;
- recognise a benefit of tax losses to the unit-linked fund based on the expected offset of those losses against projected future gains; and
- reflect the tax rates that currently apply.

We adjust the value of the Life fund to reflect a fair approximation of:

- the tax payable on that fund's investment income and capital gain returns;
- expense relief against investment income and gains; and
- for property funds, the tax relief available on expenses incurred on directly-held properties.

Capital Gains tax – A realised capital gain happens when an investment is sold at a higher price than it was bought, taking into account the movement in inflation up to December 2017. A realised capital loss happens when an investment is sold at a lower price than the price at which it was bought. Realised gains are taxed at the basic rate of income tax (currently 20%). In addition, we accrue for tax on unrealised gains (when an investment is valued at a higher price than it was bought, taking into account the movement in inflation up to December 2017) at the same rate. Relief is given for realised or unrealised capital losses to the extent that it can be expected to be offset from projected future gains.

Expense relief – Tax relief is given against realised and unrealised gains and investment income received by the fund on directly incurred expenses by the life funds.

Other charges to the funds, such as Annual Management Charges and Annual Fund Charges are considered to be 'net of tax' and no relief is given in the fund.

Investment Income tax – In unit-linked funds, tax is charged on investment income at the basic rate of income tax (currently 20%). Dividends from equities are not subject to further tax.

Will I have to pay any additional tax?

The impact of taxation and any tax relief depends on individual circumstances and type of plan held. You should contact a financial adviser for more information. Tax law and practice may change at any time and our practices will change in line with this.

Managing your investment

How do you operate these funds?

We apply the standards shown below in managing our unit-linked funds fairly and responsibly. Our Board of Directors monitors our compliance with these standards which are implemented through management committees that have been established to oversee our investment strategy and the management of our funds.

Rounding – For funds available to SLFC plans, we adjust unit prices by no more than 0.5% when making rounding adjustments. For all other funds, no adjustments are made to rounded unit prices. Fund prices are rounded to the nearest 0.1 of a penny, except for *i2live* prices which are rounded to the nearest 0.01 of a penny.

Dealing costs – We include dealing costs when we work out the unit prices for our funds. Dealing costs include things such as brokerage commission on stock sales. When we need to estimate dealing costs we base our estimates on market levels.

Tax – Each unit-linked fund bears any applicable taxes on a standalone basis. We allocate taxes fairly between customers who leave a fund and those who remain invested in a fund.

Transaction delays – In exceptional circumstances and if the plan conditions allow, we may delay (depending on the size or type of the transaction) cancelling units for a customer for a maximum of one month (or six months if the units being cancelled are property investments). This is to ensure fair treatment between exiting customers and those remaining invested in the fund.

Closing or merging funds – We may need to close funds, or merge together funds that have similar investment objectives. This may help us get better investment returns for you should the fund become very small. We also may choose to amend the objectives of a fund at any time. We will normally give customers at least one month's advance notice (or any longer period stated in your plans terms and conditions) of any change. You can choose to switch to a different fund.

Asset valuation – When a fair market value is not available we will work with our fund administrator to ensure we get a fair estimate of the asset value. If any value is unexpectedly unavailable, for example we have not received an external pooled fund price; we may choose to make an adjustment to the value from the previous day.

Asset decisions and strategy – Our investment managers are responsible for managing our assets on a day-to-day basis in line with the objectives and investment limits of each unit-linked fund. The manager will also take account of short and long term expectations in decisions relating to stock selection.

Response to adverse events – If market values for some assets become unavailable or inappropriate because of significant adverse external events, we may take action to protect the interests of all customers in a fund. For example, if trading on the stock market is suspended, transactions may be deferred (depending on the size or type of the transaction) in order to protect all the customers in the fund. Depending on the extent of the event, we may inform our customers by letter or via our website.

Administration delays – If administration problems cause a delay in buying or selling units, we will bear the effect of such delays so that you are not affected. We may need to make changes to these standards from time to time, for example, if regulatory and industry standards change. We will make sure customers continue to receive good outcomes.

Will you tell me if you make changes?

We will tell customers if we make any significant change to unit-linked funds.

Achieving good outcomes for customers

How do you make sure that my money is safe and soundly managed and that I receive a good outcome?

Our Board of Directors is ultimately responsible for the management of our unit-linked funds. We have an internal investment that is responsible for the day-to-day operational management of the funds. The team makes sure that our investment managers manage our funds in accordance with our investment policies. These policies aim to achieve consistent investment performance by taking appropriate levels of risk in line with the funds' investment objectives and by maintaining an efficient investment management structure. We also have a pricing team that oversees the unit prices and ensures, where discretion is applied, it is done so fairly, in line with our practices and commitment to our customers as well as any regulatory requirements.

The role of the investment and pricing teams also includes:

- implementing our investment strategy, making sure our structure and process support this strategy;
- complying with our investment policies and monitoring performance for our funds;
- achieving fair treatment for customers in our management of the funds;
- supervising the day-to-day operation of our funds;
- managing the funds in line with unit pricing rules and best practice principles;
- ensuring that unit prices are accurate; and
- meeting regulatory requirements.

We review the structure of the investment management operation regularly and select fund managers based on a number of factors including past performance, investment process, investment style, and investment management charges.

We use several fund managers to manage our unit-linked funds. The group of selected fund managers is reviewed over time.

We assess the fund managers' investment performance regularly against the benchmark and competitor fund returns over different time periods.

What happens if you make a mistake with the calculation of unit prices?

We make every effort to work out unit prices correctly and apply rigorous checks to help minimise any errors. If mistakes do happen, we aim to put them right as quickly as possible.

We aim to ensure that the way we deal with errors is in line with industry guidance provided by the Association of British Insurers. Our approach is as follows:

First, we correct the affected unit prices so that the prices are correct in future. Next, we make any payments of compensation. We will normally pay compensation to customers where an error has caused a loss of £10 or more. For plans that are still in force, we will generally pay compensation in the form of additional units. For plans no longer in force, we will normally pay any compensation by direct credit if possible, or by a cheque and may increase the amount to allow for interest between the date of the error and the date of payment.

Where customers have received overpayments due to an error, we reserve the right to seek the recovery of the overpayments.

What should I do if I have a complaint?

We handle complaints in line with the Financial Conduct Authority rules.

SLOC plans

If you have a complaint, please either phone us on our customer careline **0345 072 0223** (or from overseas on **+44 1256 841414**), or email us at complaints@uksloc.co.uk or write to us at:

Sun Life Financial of Canada
Customer Relations
PO Box 7019
Basingstoke
RG24 4LY

SLFC plans excluding *i2live*

If you have a complaint about any plan apart from *i2Live* (see below), please either phone us on **0345 605 2323** (or from overseas on **+44 1242 663604**), or email us at complaints@sloc.co.uk or write to us at:

Sun Life Financial of Canada
PO Box 1140
Bishops Cleeve
Cheltenham
GL50 9QW

For *i2Live* plans:

If you have a complaint please either phone us on our customer service line **0345 642 4444** (or from overseas on **+44 1256 656472**), or email us at i2live@uksloc.co.uk or write to us at:

Sun Life Financial of Canada
PO Box 6904
Basingstoke
RG24 4TD

Where can I get more information?

Please visit the fund hub in the unit-linked fund information section of our website at www.sloc.co.uk for the following additional information:

- Unit-linked funds past performance figures.
- Unit fund prices for our unit-linked funds.
- Fund charges.

You can also find details of our fund managers' websites.

SLOC plans

If you have any questions, please call our customer careline on **0345 072 0223**.

SLFC plans excluding *i2live*

If you have any questions, please call our customer service lines:

- For *i2Live* retirement products, call **0345 642 4444**.
- For all other products, call **0345 605 2323**.

Sun Life Assurance Company of Canada (U.K.) Limited, incorporated in England and Wales, registered number 959082, registered office at Matrix House, Basing View, Basingstoke, Hampshire, RG21 4DZ, trades under the name of Sun Life Financial of Canada and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

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