A guide to unit-linked investments

Introduction

This guide covers NFU Mutual's unit-linked investments. These are policies in which your money is used to purchase units in a particular fund or combination of funds, and the value of the units will change directly in line with the performance of the investments held within the fund(s).

In certain circumstances we use an element of discretion in determining unit prices and in other aspects of managing unit-linked business. Details of our approach to applying discretion are given in this guide.

Important Note

If there is a discrepancy between this guide and your policy conditions, then the terms in your policy document will prevail.

NFU Mutual's unit-linked investments include the following:

Pension Products

- Personal Pension Account
- Stakeholder Pensions*
- Personal Pensions*
- Executive Pensions and Group/Free Standing Additional Voluntary Contributions commencing after June 1988*
- Managed Fund Schemes*
- Trustee Investment Plan (TIP) – an investment plan for group pension schemes
- Barnett Waddingham Self-Invested Personal Pension/Simplified Pension Drawdown plans
- Flexible Retirement Account (FRA)*

Life Products (including investment bonds)

- Flexibond
- NFU Mutual Classic Bond*
- Capital Investment Bond (CIB)*

**Although we no longer write new policies for these products we will still, in some cases, accept increases to existing policies or new members to group pension schemes.*

Unitised with-profits (UWP) policies are not covered here – for details of how these operate, please refer to our Principles and Practices of Financial Management (PPFM) which is available on our website, nfumutual.co.uk.

Some of the policies above offer a UWP fund option, and depending on the policyholder's fund choices, a policy may contain units in both unit-linked and UWP funds simultaneously. If you have investments in both, or are considering switching between the two, we recommend you refer to both guides.

Note that the following products are UWP only and do not offer unit-linked fund options, and are therefore outside the scope of this guide:

- Avon Personal Pensions
- With-Profit Personal Pensions sold after 5 April 2001
- Shrewd Savings Plan ISA
- NFU Mutual Vintage Bond

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This guide also excludes investments made directly into our Open-Ended Investment Companies (OEICs) – these are the NFU Mutual OEIC (formerly the Avon Equity Unit Trust) and the NFU Mutual Portfolio Funds OEIC. The products which invest directly in the OEICs are our Stocks and Shares ISA (including those investments which were originally PEPs) the Select ISA, the Portfolio Investment Plan and the Select Investment Plan. For details of the funds available in the two OEICs please refer to our Key Investor Information Documents, which are also available on our website.

Some of our unit-linked funds described in this guide invest in the OEICs themselves – how this works is explained later in the guide.

Range of funds

Investors in our unit-linked products may select from a range of funds with different investment objectives. The range of funds available varies by product. Our overall range currently includes the following:

Pensions

- **'Mutually Managed' Funds**
  - **Mixed Portfolio Max 100% Shares Fund (Stakeholder, TIP, PPA, Managed Fund Schemes and FRA only)**
  - **Mixed Portfolio 40 – 85% Shares Fund**
  - **Mixed Portfolio 20 – 60% Shares Fund (TIP, PPA, Managed Fund Schemes and FRA only)**
- **'Market' selection of funds**
  - **UK Equity Fund**
  - **International Fund**
  - **Fixed Interest Fund**
  - **Index Linked Fund**
  - **Property Fund**
  - **Deposit Fund**
  - **UK Equity Income Fund (TIP, Managed Fund Schemes, PPA and FRA only)**
  - **Global Emerging Markets Fund (TIP, Managed Fund Schemes, PPA and FRA only)**

Life (Bonds)

- **'Mutually Managed' Funds**
  - **Mixed Portfolio Max 100% Shares Fund (Flexibond only)**
  - **Mixed Portfolio 40 – 85% Shares Fund (CIB & Flexibond)**
  - **Mixed Portfolio 20 – 60% Shares Fund (Flexibond & NFU Mutual Classic Bond)**
- **'Market' selection of funds**
  - **UK Equity Fund (CIB & Flexibond)**
  - **International Fund (CIB & Flexibond)**
  - **Fixed Interest Fund (CIB & Flexibond)**
  - **Deposit Fund (CIB & Flexibond)**
  - **UK Equity Income Fund (Flexibond only)**
  - **Global Emerging Markets Fund (Flexibond only)**

A more detailed description of each of the funds, including their investment objectives and risk ratings, can be found on our website in the **"Your Guide to Our Funds"** factsheet.

The investment strategy and performance of the funds is monitored and reviewed on an ongoing basis by NFU Mutual's group investment committee.

Responsibility for unit prices

The Board of Directors of NFU Mutual is ultimately responsible for the accurate calculation of unit prices. However, the day-to-day responsibility has been delegated to the Chief Actuary.

Frequency of unit pricing

For all our unit-linked funds we recalculate the price of all units as at close of business each working day (a working day is defined as a business day of the London Stock Exchange). The change in price will directly reflect the movement in the value of the assets contained within the fund, as well as the management charges applicable to the policy and any investment income, tax, and other costs incurred or income received by the fund.

Valuation of assets

Asset values are normally based on quoted market prices at the specified valuation point, which in most cases is close of business of the relevant market. For assets denominated in foreign currencies, these market prices are converted to sterling at the market exchange rates that applied at the valuation point.

For assets not quoted on a Stock Exchange, for example shares in collective investments such as OEICs, we use the most recent published prices. The NFU Mutual range of OEIC funds are priced at the same valuation point as the unit-linked funds which invest in them, so the prices of these will always reflect up to date asset values when we price our unit-linked funds.

We do not currently hold assets for which a daily valuation is not generally available, such as direct holdings of property, in any of our unit-linked funds.

Any income earned on fixed interest stocks and cash on deposit is reflected in the fund value as it is accrued. Dividends payable on equities (including shares in OEICs and any other collective investment schemes) are accounted for on the ex-dividend date.

Where we believe that a fund is showing a long-term trend of new money paid in exceeding money withdrawn, we will calculate unit prices on an “offer” basis. This means that the unit price is calculated based on the current market price of purchasing the assets, plus the costs associated with buying the assets, such as stamp duty and commission.

Where the reverse is true, we will calculate unit prices on a “bid” basis, based on the price at which we could sell the assets, minus the costs associated with selling the assets.

Any change between bid and offer basis for a particular fund will be based on long-term trends rather than short-term fluctuations. The only exception is if a substantial transaction is to take place in one of the funds which would have a significant impact on the price. Frequent changes of basis are therefore unlikely. The Chief Actuary will determine when a change of basis should be made.

The impact of such a basis change would vary between funds, as the difference between the buying and selling price and the associated costs varies across asset types

Note that for the funds which invest in OEIC shares (see below) the underlying OEIC shares are valued on their own basis, using mid-market prices unless substantial transactions are taking place within the OEIC fund itself. The choice of bid or offer basis in the unit linked fund is therefore unlikely to have any impact.

UK Equity Income, Global Emerging Markets and Mixed Portfolio 20–60% Shares funds

The UK Equity Income, Global Emerging Markets and Mixed Portfolio 20-60% Shares funds are operated in a different way to our other unit-linked funds. Instead of directly holding assets quoted on the stock market, they invest in shares of the NFU Mutual OEIC (in the case of the UK Equity Income and Global Emerging Markets fund) and the NFU Mutual Portfolio OEIC (in the case of the Mixed Portfolio 20-60% Shares fund). These OEIC funds mainly invest directly in quoted assets, with some of the funds having a proportion invested in other collective investment schemes.

These funds invest in a special class of OEIC shares that deduct no initial charge or annual management charge, so there is no possibility of double charging. Annual management charges are deducted from the Flexibond, TIP, PPA, Classic Bond, Managed Fund Scheme and FRA unit prices, in the same way as for the other funds.

For more details on how the underlying OEIC funds operate please refer to our Key Investor Information Documents, which are also available on our website.

Exceptional circumstances

It is possible that on occasions, due to circumstances beyond our control, quoted market values at the required valuation point will be unavailable for one or more assets, or for an entire market or asset class.

There may also be occasions when we believe that the most recent quoted values are inappropriate to use in pricing our funds. For example, if a major event affecting stock markets worldwide occurs on a day which is a public holiday in a country we invest in, or between the time of closure of a particular market and our valuation point, we may decide it is appropriate to adjust values to allow for it.

In such circumstances the Chief Actuary will decide on the most appropriate value to give the asset(s) for the purposes of pricing the fund. Examples of possible courses of action include using the previous day's values, increasing/reducing the previous day's asset values in line with a market index, or placing a zero value on an asset.

Mixed Max 100% Shares and Mixed 40–85% Shares funds

This section does not apply to the Mixed 20-60% Shares fund.

The Mixed Max 100% Shares and Mixed 40-85% Shares funds invest in a combination of our other unit-linked funds. The exact composition of these funds is determined by our fund managers, who can vary the investment mix by switching part of the Mixed Max 100% Shares or Mixed 40-85% Shares unit holding between funds from time to time, subject to remaining in line with the investment objectives of the fund.

Mixed Max 100% Shares and Mixed 40-85% Shares price movements are calculated by applying the price movements of the other funds in proportion to how much of the Mixed Max 100% Shares/Mixed 40-85% Shares Fund is invested in each fund. Charges are applied through the individual funds only, so there is no possibility of double charging.

How we determine which price date to use

The way we determine which price date is used for the allocation of premiums to units, or cancellation of units on a withdrawal or termination of a policy, will vary depending on the type of policy and transaction. Details of how this is determined are given in your policy document.

Under certain circumstances and at our discretion, we may allocate or deallocate units at a pricing date which is more favourable to the policyholder than the date that would be used under normal circumstances.

Deferral of transactions

It is possible that on occasions we may need to defer customer transactions on a fund. We can delay a fund switch or delay selling units in any fund for 3 months, if we consider that, as a result of investment conditions at the time, selling assets from that fund would not be in the interest of those who invest in the fund.

We can delay a fund switch or selling units in a fund investing in freehold or leasehold property for 12 months. This might happen if we need to sell some or all of the property in the fund to provide money for the switch into the new fund.

If we delay selling units, we will use the unit price that applies at the time we actually sell the units, instead of those that applied on the day we received your written instructions.

What charges are applied to the funds

Management charges vary by product type and series, and for certain products they also vary depending on the size of the investment. Details are usually given in policy documents but are also available from our Customer Services Team. Where policy conditions allow variations in the management charge, policyholders will be given at least 30 days' notice prior to any change being implemented.

Costs associated with buying and selling assets, and any tax payable on asset income or capital gains, are charged to the fund as accrued and will be reflected in the unit price. For Life funds containing equities, an allowance for tax on unrealised capital gains is made (see below). Pension funds are tax exempt so do not incur any such liabilities.

In the UK Equity Income, Global Emerging Markets and Mixed 20-60% Shares funds, there will be small additional expenses from the general costs of operating the OEIC funds in which they invest, and from the OEIC funds on occasions investing in assets which themselves have a management charge. Note that these three funds are not available to the Stakeholder Pension as this would potentially lead to a breach of the maximum level of charge which is permitted for Stakeholder products.

The NFU Mutual Classic Bond carries an additional charge to cover the cost of guaranteeing that the unit price on the fifth anniversary will be no lower than the unit price at the start of the policy. The level of charge is fixed for the duration of the bond, for those who have not opted out of the guarantee, but may vary between bonds starting on different dates. If you are invested in this product, further details are given in your policy document.

Allowance for tax on unrealised capital gains

For taxable funds containing assets which are liable to tax on capital gains (increases in asset values), in many cases the fund only pays tax on capital gains when they are realised through sale of the assets. Within our unit-linked funds, this method of taxation applies mainly to equities.

In order to treat all unit holders equitably, it is necessary to make an allowance within the unit price for the expected future tax payments on assets that have increased in value but have not yet been sold (known as “unrealised” capital gains). The Chief Actuary is responsible for the calculation of this, and the calculation method and the assumptions used are reviewed at least annually.

The method is based on the rules that currently apply to tax payments on capital gains on the sale of assets within the fund, allowing for any known future changes.

Where a fund invests in collective investments such as OEICs, the situation is slightly different. We allow for the “deemed disposal” rules set out by HM Revenue and Customs for this type of investment. This means that at the end of each calendar year we have to pay the amount of tax we would do if all shares in the OEICs were sold and immediately repurchased. However in this case the payment of tax is spread evenly over a 7 year period.

At our discretion, we may discount the tax rate to take into account an estimate of the average time until the gains will be realised, based on the time until the tax is expected to be paid.

In practice, a certain amount of approximation is necessary to make an appropriate allowance on a daily basis for tax on unrealised capital gains.

Closure of funds

We may close one or more of our unit-linked funds to new investments, or to discontinue a fund entirely and request all policyholders to transfer the value of their units into an alternative fund of their choice. The alternatives may include other unit-linked funds and/or a unitised with-profits fund.

Policyholders will be given at least 60 days’ notice of such a closure or discontinuance, at which time they will be asked to choose their alternative fund. If they do not respond before the date of closure then any future regular payments (and all existing units if the fund is being discontinued entirely) will be redirected into the Deposit fund, or, if the Deposit fund is itself no longer available, the fund which in our opinion is the closest to it in terms of investment objectives.

Rounding of unit prices

Stakeholder Pension, TIP, PPA and FRA unit prices are rounded to the nearest 0.001p. All other unit prices are rounded to the nearest 0.1p. These rounding conventions may be changed at our discretion, subject to policy conditions and statutory requirements.

Our rounding method is neutral and does not systematically favour either the company or the policyholder.

Maintaining fund asset levels

At least once a week we reconcile the amount invested within each fund with the total value of units held by policyholders, and determine whether any injection or withdrawal of cash is required. This is to make sure there remain enough assets in the fund to match the value of units held by policyholders.

While our regular cash injections and withdrawals normally take place weekly, we may also decide to inject or withdraw cash at other times. For example, this may be necessary if the Chief Actuary is informed of a large single investment or withdrawal, or if our fund managers decide to make a switch in Mixed Max 100% Shares or Mixed 40-85% Shares Fund liabilities which gives rise to a significant change in holding in a particular fund.

To maintain sufficient assets in the funds we also hold an allowance for “pipeline” (sold but yet to be processed) business. This allows for the time difference between the sale of new business and the allocation of units on the administration systems, and also allows us to inject cash weekly under normal circumstances rather than transferring smaller amounts daily as holdings change.

The Chief Actuary will use his discretion to determine the appropriate amount of pipeline allowance to hold in each fund. Any excess assets remaining in each fund after all current policyholder liabilities have been accounted for are held by NFU Mutual's long-term business fund.

Pricing errors and compensation

While we make every effort to ensure unit prices are as accurate as possible, there will be occasions when pricing errors occur. When such errors are identified we have procedures in place to make sure those investing into or withdrawing from a fund are treated fairly.

Any error discovered in a unit price whether the error be from an internal or external source which has been published and uploaded to our administration systems is logged and investigated fully to determine its level of significance.

We will ensure that the cause of the error is investigated so that prices are correct going forward. We will also look to compensate policyholders for any material errors. Materiality is determined by pre-defined tolerances in line with the Association of British Insurers (ABI) guidelines, but we will generally look to correct transactions for which the impact on the unit price was more than 0.5%.

Where a policy remains in force, we will make any necessary corrections by adjusting the number of units allocated to the policy. This includes any errors affecting partial withdrawals. However, if the policy has been paid out in full, due to a surrender, transfer out, death or retirement, it may be necessary to make a cash compensation payment. Irrespective of the error's significance, we will not make such a compensation payment if the loss to an individual policyholder amounts to less than £10.

In cases where an error has resulted in overpayments to policyholders on policies that have been paid out in full, we may decide at our discretion to recover such overpayments. However we do not do this if the overpayment made to an individual is less than £100.

A history of unit pricing errors of at least 0.5% (since 4th October 2010 when this Guide was first made available) can be found in the Appendix to this guide.

If you have invested money into or withdrawn money from a fund (including switching between funds) on a day when a unit pricing error of at least 0.5% has occurred, then it is possible that your number of units at the end of your statement may not reconcile with your number of units at the start of your following statement due to your units being adjusted to correct the error.

Publication of unit prices

Unit prices for all major products are published each working day on our website, nfumutual.co.uk.

The prices are provided for information purposes only. Other factors may affect your valuation. You should get an up to date valuation from our Customer Services Team on 0800 622 323 before taking any decision regarding your investment.

Where can you find further information?

This guide will have given you an introduction to the benefits and considerations of investing in a unit-linked fund.

If you have any questions you can:

- **Contact your NFU Mutual Financial Adviser direct**
- **Call our Customer Services team on 0800 622 323**

NFU Mutual Financial Advisers advise on NFU Mutual products and selected products from specialist providers. We'll explain the advice services we offer and our charges.

The value of investments may fall as well as rise and you may receive back less than your original investment. Please bear in mind that this guide is a summary of the way we manage our unit-linked business in general. Your policy document will give more specific details relating to the type of policy you have.

Financial advice is provided by NFU Mutual Select Investments Ltd.

Appendix

Unit Pricing Errors of at least 0.5% (since 4th October 2010)

1st January – 30th September 2012

The unrealised capital losses for 2011 were calculated incorrectly resulting in an overstatement of the unit prices in a number of Flexibond funds.

The maximum impact was 0.534% on the UK Equity Income fund, 0.507% on the Global Emerging Markets and 0.828% on the Cautious Managed fund.

No other products or funds were impacted.

Affected policies were corrected in line with our standard procedure; this procedure is set out in the UL Guide.

3rd February 2014

The ex-dividend payments for the life and pensions Mixed 20-60% Shares fund were not properly accounted for in the valuation, resulting in an understatement of the prices.

The maximum impact was 1.208% on the life version of the Mixed 20-60% Shares fund and 1.194% on the pension version of the Mixed 20-60% Shares fund.

No other funds were impacted.

Affected policies were corrected in line with our standard procedure; this procedure is set out in the UL Guide.

23rd December 2016

An unaccounted tax liability on accrued income and an incorrect asset valuation basis for the life Fixed Interest fund resulted in an overstatement of the prices.

The maximum impact was 0.710% on Flexibond and 0.703% on Capital Investment Bond.

No other products or funds were impacted.

Affected policies were corrected in line with our standard procedure; this procedure is set out in the UL Guide.