

A GUIDE TO UNIT-LINKED INVESTMENTS



NFU Mutual
INSURANCE | PENSIONS | INVESTMENTS

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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 products include those listed in the table below. Please note that not all of these products still accept new investments.

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:

PRODUCTS	FUNDS AVAILABLE
Personal Pension Account (PPA) Managed Fund schemes Trustee Investment Plan (TIP) - an investment plan for group pension schemes Barnett Waddingham Self-Invested Personal Pension/Simplified Pension Drawdown plans	<ul style="list-style-type: none">• Mixed Portfolio Max 100% Shares Fund• Mixed Portfolio 40-85% Shares Fund• Mixed Portfolio 20-60% Shares Fund• UK Equity Fund• International Fund• Fixed Interest Fund• Index Linked Fund• Property Fund• Deposit Fund• UK Equity Income Fund
Stakeholder Pensions	<ul style="list-style-type: none">• Mixed Portfolio Max 100% Shares Fund• Mixed Portfolio 40-85% Shares Fund• UK Equity Fund• International Fund• Fixed Interest Fund• Index Linked Fund• Property Fund• Deposit Fund
Personal Pensions (PPP) Executive Pensions and Group/Free Standing Additional Voluntary Contributions commencing after June 1988	<ul style="list-style-type: none">• Mixed Portfolio 40-85% Shares Fund• UK Equity Fund• International Fund• Fixed Interest Fund• Index Linked Fund• Property Fund• Deposit Fund
Flexible Retirement Account (FRA)	<ul style="list-style-type: none">• Mixed Portfolio Max 100% Shares Fund• Mixed Portfolio 40-85% Shares Fund• Mixed Portfolio 20-60% Shares Fund• Fixed Interest Fund• Deposit Fund

PRODUCTS	FUNDS AVAILABLE
Flexibond	<ul style="list-style-type: none"> • Mixed Portfolio Max 100% Shares Fund • Mixed Portfolio 40-85% Shares Fund • Mixed Portfolio 20-60% Shares Fund • UK Equity Fund • International Fund • Fixed Interest Fund • Deposit Fund • UK Equity Income Fund
NFU Mutual Classic Bond	<ul style="list-style-type: none"> • Mixed Portfolio 20-60% Shares Fund
Capital Investment Bond (CIB)	<ul style="list-style-type: none"> • Mixed Portfolio 40-85% Shares Fund • UK Equity Fund • International Fund • Fixed Interest Fund • Deposit Fund

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

This guide also excludes investments made directly into our Open-Ended Investment Companies (OEICs) – these are the funds available for our Select product range on My Investments.

The with-profits funds available in our Select Pension Plan are also out of scope. For details of how this investment option operates please refer to our PPFM, which is available on our website.

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.

RESPONSIBILITY FOR UNIT PRICES

The Board of Directors of NFU Mutual is ultimately responsible for the accurate calculation of unit prices, while the day-to-day calculation of the prices is carried out by the Finance Actuarial team. The Chief Actuary reviews the key areas of discretion used in the calculations.

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 recently available 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.

The vast majority of our assets have a reliable daily valuation available. On the rare occasion that such a valuation is not available, such as for any direct holdings of property, we will use a fair value.

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 we believe that a fund is showing a long-term trend of money withdrawn exceeding new money paid in, 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.

The choice of bid or offer basis therefore affects the unit prices which we calculate.

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 material impact on the price. In this scenario, we may change the pricing basis on that day. Frequent changes of basis are therefore unlikely. We will review when a change of basis should be made and the Chief Actuary will approve any such changes.

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 funds which invest in collective investments such as OEICs (see below) the shares which we hold in these collective investments are valued on their own basis. These shares have no explicit additional buying and selling costs and the shares only have a single price. The choice of bid or offer basis in the unit linked fund will not have any impact on the value placed on these shares when calculating the unit price.

FUNDS INVESTING IN COLLECTIVE INVESTMENTS

Instead of only directly holding assets quoted on the stock market, some of our funds also invest in collective investments.

The Mixed Portfolio 20-60% Shares fund invests in shares of the NFU Mutual Portfolio OEIC. This underlying OEIC fund has no initial charge or annual management charge deducted, so there is no possibility of double charging. Annual management charges are deducted from the product unit prices, in the same way as for other funds. For more details on how this OEIC fund operates please refer to our Key Investor Information Documents, which are also available on our website.

Other unit-linked funds may also hold shares in collective investments alongside direct assets quoted on the stock market. In particular, our International funds invest a significant proportion in collective investments covering specific types of global equities. If there are any additional charges for investment into these types of assets, they

will be referenced in customer documentation. Further details can be found in the section titled **“What charges are applied to the funds”** later in this guide.

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 we will decide on the most appropriate value to give the asset(s) for the purposes of pricing the fund and obtain approval from the Chief Actuary or their appointed delegate for the approach taken. 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

The Mixed Max 100% Shares and Mixed 40-85% Shares funds invest in a combination of other 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 using the value of the holdings in each

underlying fund and then applying the annual management charge. Annual management charges are not applied to the underlying funds into which the mixed funds invest, 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.

Some of our funds may invest directly or indirectly in property. For these funds, we can delay a fund switch or selling units for up to 12 months.

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 instructions.

WHAT CHARGES ARE APPLIED TO THE FUNDS

Management charges vary by product type and series. For certain products, such as the NFU Mutual Classic Bond, additional charges may apply to cover the cost of certain guarantees.

The current charges applicable to each product are available from our Customer Services Team or on our website, nfumutual.co.uk. Where policy conditions allow variations in the management charge, policyholders will be given at least 30 days' notice prior to any change being implemented.

All of our unit linked funds apply annual management charges, when setting unit prices, using a fraction of 1/365 for each day. 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 or property, 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 Mixed 20-60% Shares fund, there may be additional expenses from the general costs of operating the OEIC fund in which it invests, and from the OEIC fund investing in assets which themselves have a management charge. For other funds holding shares in collective investments there may also be additional expenses as above. Where these funds are available to the Stakeholder Pension, we ensure that total charges are within any charge cap limits.

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). We set the assumptions and methodology that are used for this, with approval given by the Chief Actuary. The assumptions are reviewed at least annually.

The method is based on the rules that currently apply to tax payments in respect of the individual assets within each fund, allowing for any known future changes. For example, for many assets tax is charged on capital gains on the sale of assets, or for collective investments such as OEICs tax is charged on a "deemed disposal" basis, in line with rules set out by HM Revenue and Customs.

At our discretion, we may discount the tax rate to take into account an estimate of the average time until the tax is payable.

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 a large single investment or withdrawal is made, 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.

For each fund, any excess in value when we compare the value of assets in the fund and the total value of units held by policyholders, is held by NFU Mutual's long-term business fund.

The team responsible for unit pricing will regularly review the amount of excess assets held in each fund to ensure they remain appropriate and the Chief Actuary will approve the approach taken.

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 industry standards, but we will generally look to correct transactions for which the impact on the unit price was more than 0.5%, and generally will not correct transactions where the impact on unit price was less 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.

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.

nfumutual.co.uk



NFU Mutual



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