



FUND GUIDE

**A GUIDE TO HOW
WE MANAGE OUR
UNIT-LINKED FUNDS.**



INTRODUCTION.

This guide aims to give you an understanding of how we manage the unit-linked funds available for investment through our life and pension products. It covers the main policies and practices by which we manage the funds. These have been developed against a set of core principles, set out below.

While there are different terms used to describe owners of our products, this document uses consistent terminology to ensure that it is easily understandable:


- **Policy** – Your investment bond, regular savings or pension contract with us.
- **Policyholders** – Those who have an investment bond, regular savings or pension contract with us, invested in our life and/or pension funds.
- **Policy terms and conditions** – The terms and conditions of your contract with us as contained in your contract document, product guide (and fund guide for the Money Builder (Investec) and Protected UK Growth Funds) or member's booklet issued after your investment or pension is processed.

While you may wish to keep it for reference, this guide does not form part of any policy you have with us and does not change the terms or conditions of any policy. You should therefore also refer to your policy terms and conditions and any regular statements. Should there be any inconsistency between this guide and your policy terms and conditions, the latter will prevail.

It is possible that our approach to managing our unit-linked business may change. We will inform you if we make any change that significantly affects your policy.



FINDING OUT MORE

At some points we've included clear signposts  which direct you to more detailed information elsewhere. Keep an eye out for these signposts.

WHAT ARE OUR KEY PRINCIPLES WHEN MANAGING OUR UNIT-LINKED FUNDS?

When managing our unit-linked funds and the investments we make on your behalf, we follow several key principles. These principles include the following:

- To invest your money into the unit-linked funds chosen by you and to make sure that your share of the funds is clearly identifiable by a defined number of units in the funds.
- To make sure that you receive a fair return on your investment, considering the performance of your chosen funds, and to take charges only in line with the charges properly disclosed to you.
- To make sure that all investments held by the funds are permitted by FSA regulation.
- To manage funds as stated in your policy terms and conditions, and follow industry best practice, FSA regulation and published fund objectives.
- To resolve any issues or problems with our unit-linked funds as soon as practicable after they arise, and in a fair and consistent way.
- To manage the funds in a way which is fair, and in the interest of all investors.

WHO IS RESPONSIBLE FOR MAKING SURE THESE PRINCIPLES ARE FOLLOWED?

The Unit Linked Management Committee (ULMC) is responsible for the oversight and management of the unit-linked funds. This is made up of a number of senior managers with responsibility for the different aspects of fund management, including investment management, fund valuation and pricing, product and policy administration and compliance.

The ULMC meets regularly, and receives regular reports and information to assure itself that these policies and practices are being followed, and that any exercise of discretion is applied fairly. It forms part of our risk and compliance framework.



HOW DO WE INVEST YOUR MONEY?

WHAT TYPES OF FUNDS DO WE PROVIDE?

The following types of investment are available to invest your money in, although they are not necessarily all available for each type of policy (your policy terms and conditions will provide details):

Types of funds

- Internal funds – investment in funds managed by us, where the value of your investment at any time is directly related to the value of the assets in the fund.
- External funds – as above, but investment in funds managed by providers other than us.
- Distribution funds – investment in internal or external funds that use income generated by assets within the fund either to provide you with an income or reinvest in the fund to increase the unit price.
- Protected UK Growth Fund – an internal fund with the added provision that if the value of your investment falls by more than a specified percentage, an external protection provider will make a payment into the fund to meet any shortfall, in return for a regular charge to the fund to meet the cost of the protection (see the **Protected UK Growth Fund Guide** for further info).
- Deposit Fund – an internal fund where the value of the fund varies by the addition of interest at a rate set by us, and where the value of your investment is guaranteed never to fall.
- Money Builder (Investec) Fund – an internal fund investing in two external funds managed by Investec. The guaranteed version of this fund offers a guaranteed amount on the fifth anniversary of continuous investment in the fund (see the **Money Builder (Investec) Fund Guide** for more information).

INTO WHAT TYPES OF ASSETS DO WE INVEST YOUR MONEY?

The asset composition of the fund varies according to the agreed objectives of each fund and is in line with any statements we made to you when you took out your policy or subsequently. The assets will be one or more of the broad categories listed below. However, within each category, all funds generally invest in a wide range of securities to lessen the exposure to any one individual stock.

- Shares quoted on the UK or an overseas stock exchange.
- Unquoted shares.
- Fixed interest securities guaranteed by the UK or an overseas central or local government.
- Bonds and loans issued by UK or overseas companies.
- Securities in either of the previous two categories where the interest payable and the eventual repayment value varies in line with the Retail Prices Index or an overseas equivalent.
- Cash, money market instruments and other securities which mature within a year.
- Commercial property (either in the UK or overseas).
- Authorised unit trusts or similar pooled investment schemes where the underlying investments are in one or more of the above categories.
- Derivatives, in order to help the operation of the fund and to reduce the exposure to adverse market movements (the use of derivatives is strictly controlled).

DO THE INVESTMENTS IN EACH FUND COVER OUR OBLIGATIONS TO YOU?


When you invest your money with us it is used to buy units in your chosen funds, in accordance with your policy terms and conditions. We are required by regulation to make sure that in normal circumstances, the assets in the unit-linked funds are capable of meeting cash outflows to policyholders as they become due (see page 13 for more information on special situations). We monitor this on a daily basis and also complete an annual return to our regulators.

We also establish units in most of the available funds in advance, in anticipation of investment by policyholders. These holdings are generally referred to as 'box' holdings. The box size held in each fund will vary over time, depending on the activity of the fund and the time it has been available to customers.

During the period up to the time these units are required for policyholders investments, they are owned by us. We do not aim to make a profit out of holding these units, but we do receive the normal investment return for the relevant investment market, which can be either positive or negative.

HOW DO WE VALUE OUR UNIT-LINKED FUNDS?

HOW OFTEN AND AT WHAT TIMES DO WE VALUE THESE FUNDS?



All our own Legal & General funds, and funds investing in externally managed funds are valued every weekday, except on English public holidays. The funds are normally valued at 12 noon, except for North American investments. In normal circumstances, this means that policyholder instructions are processed using a price calculated after the instruction was received, and units allocated in accordance with policy terms and conditions.

Our North American investments are valued at 3pm. This is after the opening time for the New York Stock Exchange, and makes it possible to obtain a true value for these investments.

There are occasionally days where an earlier valuation time is used. This is usually because of early closure of the London Stock Exchange (for example, on Christmas Eve).

WHAT VALUE DO WE PLACE ON THE INVESTMENTS IN THE FUNDS?

For our internal funds (except the Deposit Fund), the daily valuation of securities, whose prices are quoted on a recognised stock exchange, uses the trading prices at the time of the valuation. These prices are received from a reputable external source.

For property investments, the valuation of a particular property on a given day is subject to the valuer's opinion. Our normal practice for our directly held property investments is to have them independently valued on a monthly basis by a reputable firm of independent chartered surveyors, adopting Royal Institution of Chartered Surveyors industry standard valuation procedures. In addition, properties are inspected at least once a year. For indirect investments, valuations are based on values provided by the underlying fund managers, normally quarterly.

In the event of significant movements in the property market, it may be necessary to value the assets more frequently to protect the interests of all policyholders.

For other securities which are not quoted on a stock exchange or for which trading has been temporarily suspended, we carry out valuation in line with agreed and consistent procedures and principles. Such investments will not normally represent a significant proportion of any fund.

For externally managed funds, the underlying investment is in a fund or funds managed by an external fund manager. The value which we place on these investments is based on the unit prices supplied by that external manager which may not always be the same as the manager's published price.

For the Deposit Fund the value of your investment increases at a rate of interest set by us. This rate is derived from short term market interest rates.

For any fund, there are two alternative bases for placing a value on the assets in a fund:

- Based on the prices at which the investments in the fund might be bought. This value is increased by an estimate of stock exchange commission, stamp duty (if applicable) and agents' and legal fees (for property funds), which would be payable on the purchase. This basis is called the offer basis.
- Based on the prices at which the investments in the fund might be sold. This value is reduced by an estimate of stock exchange commission, agents' fees and legal fees (for property funds) which would be deducted from the sale proceeds. This basis is called the bid basis.

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In normal circumstances the difference between the two bases varies according to the assets the fund is investing in. For bond and equity funds, the difference will be about 0.5% - 2.5%, depending on the nature of the fund. For property funds, the difference will be closer to 7% mainly because of the effects of stamp duty. Additionally, it is possible for an individual fund to display much larger differences for periods of time, for example due to the funds assets becoming particularly illiquid.

HOW DO WE DECIDE WHETHER TO VALUE A FUND ON THE OFFER OR BID BASIS?

The basic principle is that a growing fund would normally be valued on the (higher) offer basis and a shrinking fund would normally be valued on the (lower) bid basis.

This is because in a growing fund, assets will need to be bought at the higher prices as explained previously. If, on the other hand, the fund is shrinking, assets will need to be sold, resulting in policyholders receiving the lower prices.

We review the pricing basis for each fund regularly to take account of the cash flows into and out of the fund. However, a significant movement into or out of a fund on a particular day may lead to a change in the pricing basis for that day's valuation.

Where funds are externally managed, the pricing basis will depend on the daily activity in the fund. Where we trade in the fund, we will use the price supplied by the fund manager, either the buying or selling price, to value the fund that day. If there are no trades on a particular day, the fund will operate in line with the basic principle outlined above.

WHAT OTHER FACTORS DO WE TAKE INTO ACCOUNT IN THE VALUATION OF OUR UNIT-LINKED FUNDS?

The main part of our daily valuation for each fund is the value of the portfolio of stock exchange or other investments. However, we make a number of adjustments to the valuation, to make sure that the price that we publish each day reflects a fair value, both to policyholders investing in the fund and to those leaving the fund.

These adjustments are made up of some or all of the following:

- For funds valued on the offer basis, we add an estimate of the costs of buying the investments in the fund (as explained in the **What value do we place on the investments in the funds?** section on page 7).
- For funds valued on the bid basis, we deduct an estimate of the costs of selling the investments in the fund (as explained in the **What value do we place on the investments in the funds?** section on page 7).
- For shares, we add the value of dividends which have been declared but not yet paid.
- For property investments, rental income is normally paid quarterly in advance; in the daily valuation we spread this income evenly over the three month period.
- We add any amounts owing to the fund, for example arrears of rental income, tax reclaims and rebates of charges from fund managers.
- We deduct any amounts owed by the fund, for example tax that is due but unpaid and any fund management charges.
- When the current values of the investments in life funds are higher than the price at which the same investments were bought, there is a potential tax liability on the capital gain. We make an adjustment to the fund valuation for this potential future tax liability, allowing for the fact that it may be a number of years before the tax is actually paid.
- Similarly, if the current value of a life fund is less than the original cost, tax relief on the losses may arise, resulting in a value being attributed. However, this value will generally be restricted to a small percentage of the fund, reflecting a reasonable expectation of being able to recover the benefit.
- We may make any other reasonable adjustments that we believe are in the interests of fairness for all our policyholders.

WHAT ABOUT TAXATION OF THE FUNDS?

In general, Life funds are subject to income tax, for example on dividends received, and corporation tax on the growth in capital values. Pension funds are not charged corporation tax, and can reclaim income tax paid on bond based assets.

Any changes to the tax rules by HMRC are implemented as soon as practicable.

The tax charge is calculated and deducted from each individual fund, to avoid policyholders in one fund subsidising those in another.

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Future tax liabilities or reclaims, for example for realised and unrealised gains or losses, are maintained as a provision within each life fund. The basis by which these provisions are maintained is reviewed at least annually, and approved by ULMC.

HOW DO WE CALCULATE THE UNIT PRICES WHICH WE PUBLISH?

We calculate the final value of each fund each day, as explained in the **How do we value our unit-linked funds** section on page 6.

We also calculate the number of units into which the fund is shared. The number of units is the total allocated to each policyholder, plus any units temporarily owned by us in the box, awaiting allocation to policyholders.

The unit price is the final fund value divided by the total number of units. We round the published unit prices according to the following rules:

- The price at which we buy units back from you, for example if you make a claim (the bid price) is the value calculated above rounded down to the next lower 0.1p.
- For more recent contracts, the price at which we sell units to you (the offer price) is the same as the bid price, calculated as stated above. Details are in your policy terms and conditions.
- For other contracts we make an initial charge (typically 5%); for these contracts the offer price is the bid price divided by 0.95 and then rounded to the nearest 0.1p.
- Your policy terms and conditions state whether an initial charge applies for your policy.

i FINDING OUT THE LATEST UNIT PRICE

e The final calculated price is available each day on our websites:
<http://www.legalandgeneral.com/investments/> or
<http://www.legalandgeneral.com/pensions/>



WHAT CHARGES AND DEDUCTIONS ARE THERE?

We take certain charges and deductions from the funds, but only in line with those as stated in your policy terms and conditions or subsequently. We do not make any hidden charges to make additional profit from the funds. These charges and deductions include the following:

- Costs directly related to the buying or selling of investments, for example stamp duty, commission and legal fees.
- The fund management charge deducted either monthly or daily from the funds (this only applies for certain contracts and does not include the Deposit Fund; for others, part or all of the management charge is deducted directly from your policy by cashing units); your policy terms and conditions will have stated the amount of the management charge and how it is deducted.
- Fees to external organisations, for example in respect of valuations and for the custodianship of the fund investments.
- For property funds, agents' fees and legal fees for the negotiation of leases and the collection of rents.
- For the Protected UK Growth Fund, the charge to the external protection provider for the cost of the protection.
- For all life funds, the tax that is payable is deducted as required by tax regulations (currently quarterly).
- For the Money Builder (Investec) Fund (guaranteed version), the cost of providing the guarantee.

For stakeholder pensions contracts, we only deduct those charges that are permitted under stakeholder regulations.

Where a fund's assets include holdings in another fund, for example a unit trust, the fund management charge of the unit trust is refunded, to avoid double charging.

WHAT MAY AFFECT THE VALUE OF YOUR INVESTMENT?

As with many other types of investment, there are a number of factors that could affect the value of your policy, for example:

- For all funds except the Deposit Fund, the value depends on the day to day value of the investments in the fund, which can increase or reduce.
- For the Protected UK Growth Fund, there is a contract between us and the external protection provider to make a payment into the fund if the value of the fund at any time falls by more than a specified percentage; this payment is not guaranteed, as it depends on both parties meeting their obligations under the contract. If the payment is not made by the external provider the protection will not apply (see the **Protected UK Growth Fund Guide** for more information).
- For distribution funds, the distribution rates can go down as well as up; this would result in a fall in the income that you receive from your investment.
- For the Money Builder (Investec) Fund (guaranteed version), there is a guaranteed amount payable after five years of continuous investment (see the **Money Builder (Investec) Fund Guide** for more information).
- In certain circumstances we may increase the charges that we make on your investment. Increases are subject to any conditions written in your policy document, including the provision of notice.

WHAT HAPPENS IF WE MAKE AN ERROR IN VALUING OUR FUNDS?

We have robust processes in place for calculating fund prices, and run regular checks to make sure fund prices are accurate. It is however a complex process and on occasions, an error may occur. This could result in either an incorrect payment to you for a claim or an incorrect number of units being added to your policy.

These errors are usually small and have an insignificant effect on the value of the affected fund. However, if you have been adversely affected to a significant extent, as a result of an error made by us, we will normally compensate you as soon as is reasonably practicable after the error is discovered. We would generally consider a pricing error of more than 0.5% of the unit price to be significant.



OTHER INFORMATION.

CLOSURE OF FUNDS

From time to time we need to close certain funds and require the policyholders who have invested in these funds to switch into alternative funds. Reasons why we might close funds include the following:

- For external funds we would close a fund if the external provider gives us notice that it will close its own fund into which we invest or if there is a fundamental change to the investments in that fund. We might also consider closure if circumstances arise where we consider that to continue to be involved with that provider would be to the detriment of our policyholders.
- We may close the Protected UK Growth Fund if it became impossible to continue to obtain protection cover on reasonable terms.
- We would consider closing a fund if there were very few policyholders investing in that fund so that it became impracticable to manage the fund in line with our operating guidelines.
- We would close a fund if UK or overseas government action resulted in the operation of that fund becoming illegal or impracticable.

In the event that we decide to close a fund, we will adopt the following principles:

- Where possible, we will write to you in advance, advising you of the date of the closure and setting out your options.
- We will offer you a switch, free of charge, into one or more of the remaining available funds.
- Our letter will tell you which fund your investment will be switched into if no alternative fund is chosen before the date of closure.
- When you switch, we will assess the value of your holding in the closing fund in the best interests of all policyholders in the fund.

SPECIAL SITUATIONS

On occasions, special and emergency situations arise that might require non-standard action to be taken. These may include the following:

- A major incident in London or elsewhere that has a significant effect on investment values or results in the closure of parts of the city.
- The unplanned closure of one or more of the main stock markets around the world.
- Times when property investments are not readily saleable.
- Actions by overseas governments which result in assets invested in the country concerned being frozen.
- A major systems failure, either at Legal & General or at one of the external organisations on which we rely to value our funds.

In these situations the main priority is to protect the interests of our policyholders as a whole. We will take any action we believe to be necessary to achieve this. Action that might be considered would include the following:

- A delay in processing surrenders, switches or other payments, but subject to any statements which we have made in your policy document.
- A change in the basis which we use for valuing the affected funds from the offer basis to the bid basis or vice versa.
- The valuation of investments for which it is impossible to obtain an accurate value will be estimated on a fair basis.



IN WHICH AREAS DO WE EXERCISE DISCRETION?

To ensure fair treatment between groups of investors, we retain discretion to change the way certain aspects of our funds operate. The extent and circumstances in which this discretion is applied can usually be found in your policy terms and conditions, and is also reviewed and confirmed by ULMC on a regular basis, or when particular circumstances dictate immediate action.

Discretion may be exercised in the following areas:

- The movement of a fund's pricing basis (from bid to offer or vice versa), depending on the flows of money into and out of the fund.
- A change to the time when a fund is valued (other than noon for example).
- The provision of shareholder monies when establishing a new fund, so that a viable amount of assets can be acquired.
- The right to delay switches or surrenders in adverse market conditions.
- The establishment of rules for valuing assets, including property funds and also any non-marketable securities, where market conditions result in prices not being available or are not available on a daily basis.
- Particularly for life funds, the charges made on each fund for income and capital gains tax, which are often affected by government action.
- The basis for making provisions in the fund valuation for deferred tax payable or tax recoverable, including unrealised capital gains and losses.
- The application of dealing costs, both in respect of actual deals and also any loading in the daily price.
- The ability to change the definition or level of management or other charges.
- The rates used to distribute income on distribution funds, together with a statement of how the distributions relate to the income generated by the funds.
- The level and nature of pricing errors that require compensation.
- The pricing basis – bid or offer – to be used when valuing a fund that is merging or being closed to new business.

FURTHER INFORMATION.



WHERE CAN I FIND OUT MORE?

Your policy terms and conditions and regular statements provide specific information about your particular policy. You may also have a key features document and a plan or fund brochure.

Your usual financial adviser should also be able to provide you with further information on unit-linked funds.



CALL US

We will be happy to answer any questions that you may have. You can call our policyholder centres on:

0370 0104 080 for investments

0370 1452 275 for stakeholder pensions

0370 0502 006 for other types of pensions.

Calls to these numbers will not exceed your fixed line or mobile phone provider's national rate and will be included in any inclusive free minute plan or discount scheme you may have with your telephone provider. Call charges will vary between telephone providers. We may record and monitor calls.



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