

UNDERSTANDING SMOOTHING

WHAT IS WITH PROFITS?

When you invest in with profits, we pool your money with our other with profits investors in the With Profits Fund. The With Profits Fund invests across assets such as UK shares, overseas shares, UK commercial property and fixed interest securities.

With profits is a medium to long-term investment option. You should be prepared to keep your money invested for at least five years, ideally longer.

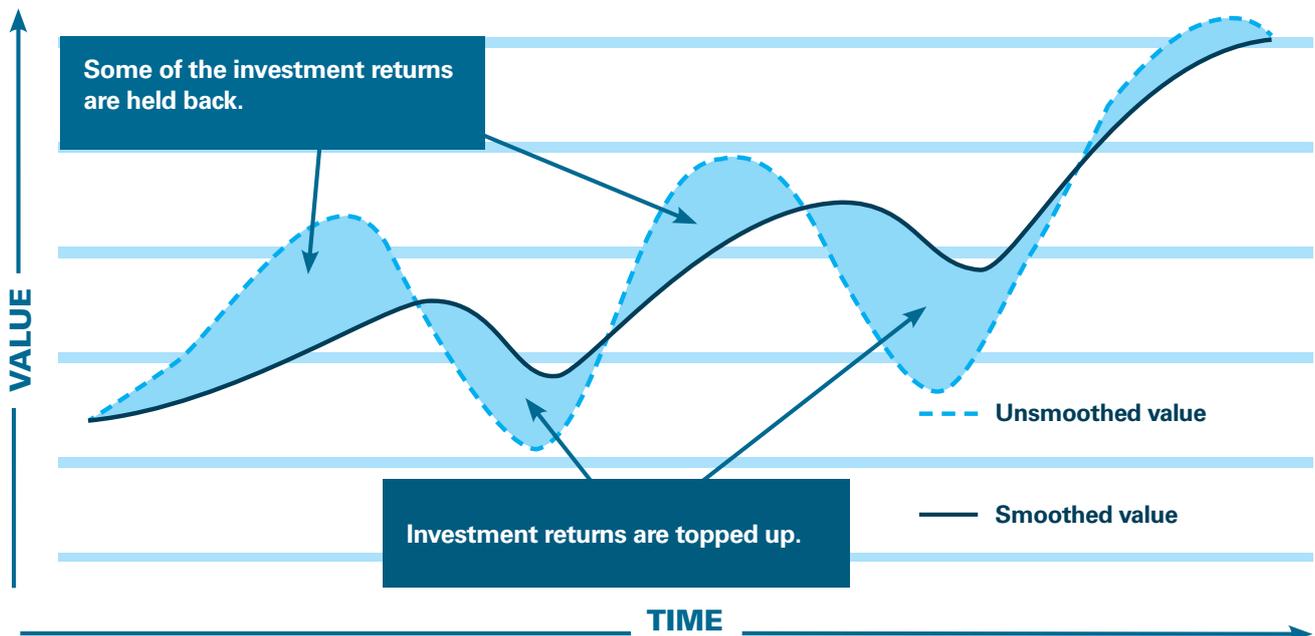
With profits aims to offer a better return than a typical savings or deposit account over the medium to long term. We believe with profits is less risky than investing directly in the stock market due to a mix of assets and the principle of 'smoothing'.

However, due to the nature of the investments held in the fund, it is more risky than a deposit account and you may get back less than you invested.

WHAT IS SMOOTHING AND WHY USE IT?

A particular feature of with profits is 'smoothing'. Smoothing aims to even out some of the short-term ups and downs that may be experienced when investing directly in the stock market or other investments.

The following graph is to give you an idea of how smoothing works and is for illustration only. It does not show smoothing for any specific plan or time period.



HOW ARE RETURNS CALCULATED AND PAID?

Each year we work out how well the assets backing With Profits Fund investments have done. Depending on how the investments have performed and taking account of the smoothing aims of the With Profits Fund, a bonus may be payable. Bonus rates are not fixed, they may be higher or lower than current rates and may be zero.

There are three types of bonus that may be applied to a with profits investment:

• ANNUAL BONUS

An annual bonus may be added to a with profits investment at the end of each year. Each annual bonus added increases the basic guaranteed amount we'll pay out at certain contractual points that will vary depending on the type of plan you have. Once we've added an annual bonus, we cannot withdraw it for payments made to you at your contractual points. For more information on contractual points, please see our guides to how we manage your with profits investment. You can refer to your plan documentation for details of your contractual points.

• INTERIM BONUS

We may pay an interim bonus to cover the period for which an annual bonus rate has not yet been declared. The interim bonus rate may be changed without notice.

• FINAL BONUS

A final bonus is a final addition to a plan and only applies when a claim is paid or if you move to another fund. It's paid to make up any difference between the amount we have guaranteed to pay and the overall amount we decide is fair to pay planholders. Final bonus rates may be changed without notice. Not all products are eligible for a final bonus.

Not every with profits planholder receives the same rate of bonus. Investment returns, less any tax applicable, are the most important factor in deciding how much bonus we pay. These depend on the mix of assets your plan is invested in and how these assets have performed. We also consider the following:

- Historic investment returns experienced over the period of your investment.
- Bonuses already declared.
- Our view of future investment conditions.
- When you started your plan.
- The effects of smoothing.
- The type of with profits plan you have and the terms of your plan, including the type and extent of any guarantees.
- Money built up in the With Profits Fund that is over and above what we expect to need for future obligations such as tax, expenses and future bonuses to planholders.
- The costs of running your plan. With effect from 1 January 2018, most expenses relating to the With Profits Fund were fixed until 30 June 2019 under an expense agreement. Legal & General may extend this by up to six months.
- Any other adjustments, for example to cover an increase in the cost of guarantees and options.

MARKET VALUE REDUCTIONS (MVRs)

An MVR may be made to reduce the amount we pay you if you choose to withdraw from your investment. We use MVRs to make sure that when you take money out of your investment or move out of with profits, you get your fair share of the assets that make up the With Profits Fund. If we paid out more than this amount, this may disadvantage the remaining investors. Our factsheet 'Understanding Market Value Reductions' explains this in more detail.



The information in this factsheet is a summary. You can find full details in our 'Principles and Practices of Financial Management' and our guides to how we manage your with profits investment. For a detailed description of the facts and figures behind with profits you may also want to read the '2018 bonus factsheet (incorporating PPFM Data Annex) 21 February 2019'. These documents, and any others referred to in this factsheet, are available at legalandgeneral.com/with-profits/guides



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We are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

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