

# Equitable Investment Funds

IMPORTANT: PLEASE READ CAREFULLY

*If there is anything which you do not understand, or if you would like more information about any aspect, please contact us.*

## 1. Introduction

This document has been written to provide you with information about the investment funds available to you through Equitable Life's life and pensions products. Not all funds are available to all products; please refer to your policy documentation for details.

It also provides a summary of the features of each Equitable fund including the with-profits and the unit-linked funds. If you require more detail, this is available for the with-profits fund in the document entitled 'Principles and Practices of Financial Management', which is available through our website or by calling us on 0845 603 6771.

For current performance figures and prices for unit-linked funds please see our website at:

[www.equitable.co.uk](http://www.equitable.co.uk)

## 2. The Equitable with-profits approach

### The with-profits fund

We take premiums we have received from you and other policyholders and we invest them in the with-profits fund. The investment 'returns' (the money the fund earns) on the existing fund and on any further premiums we receive affect the overall value of the with-profits fund.

The number of policies we manage will reduce each year as they come to an end. As we pay out on each policy, the fund will get smaller as each year passes. We aim to make sure that each policyholder receives a fair return from the fund.

We will continue to accept premiums on policies you already have, as long as the conditions of your policy allow you to make further payments. We will issue new policies only if your existing policy gives you the option to do so.

### What is a with-profits policy?

A with-profits policy is a policy whose benefits reflect the performance of the with-profits fund. Any profits in the fund are shared between policyholders as bonuses. These are explained in more detail in the next section.

### Guaranteed benefits

Each with-profits policy has a minimum guaranteed benefit. This will be different for each policy, so you will need to check your own policy documents for details. The guaranteed benefit represents the minimum amount we would pay when the policy ends normally (that is, when you retire, your policy reaches its end, or you die).

### Guaranteed investment returns

Many of our policies have a guarantee where we promise to pay a minimum rate of return (typically 3.5% a year) on the invested part of the premiums. You will need to look at your own policy to see if this applies to you.

### Types of with-profits policy and the benefits they provide

We have two main types of with-profits policy.

#### 1 With-profits recurrent single premium (RSP)

If you have a pension plan with us, it is probably an RSP plan.

With this type of plan, each payment you make buys a guaranteed benefit. All of these guaranteed benefits added together make up the guaranteed amount we must pay you. For pension policies, this will normally be on retirement or death. Bonuses may then be added to increase the benefits you get.

#### 2 Conventional with-profits

When you take out a conventional with-profits plan, you start off with a guaranteed amount that you will get if you pay all of the premiums. Bonuses may then be added to increase the benefits you get. The original guaranteed amount is called the 'sum assured'. Examples of this type of policy are:

- whole-of-life plans, which pay out when you die; and
- endowments, which pay a lump sum at the end of the policy (or when you die, if this is earlier).

### How we pay bonuses

We pay different types of bonus. The amount we may pay from time to time is set by the Board of Directors, who aim to make sure the amounts are fair to all policyholders.

## *Reversionary bonuses*

In the past we have increased the guaranteed benefits of some policies from time to time by adding a 'reversionary' bonus (this means that once we have added it, we cannot take it away). We do not expect to add any more reversionary bonuses to policies in the future, but you will still get any reversionary bonuses we have already added.

## *Final bonuses*

We may also pay a final bonus when your policy ends. This type of bonus is not guaranteed and may be changed or withdrawn without notice.

In calculating bonuses, the Society aims to award as much as possible but may keep some money back to be confident that we can meet future payments.

## *How we work out the amount we will pay*

When your policy comes to the end of its contract, our aim is to give you a 'fair return' from the fund so that over time the total value of the fund will be paid out to policyholders.

The amount we pay is based on your guaranteed benefits, including any reversionary bonuses we have already added and any final bonus that may be due.

To work out what amount we will pay, we use a tool called the Policy Value (or its equivalent for conventional policies). We use the Policy Value to check the policy's fair return from the with-profits fund. The Policy Value is not guaranteed and can go down as well as up. Each year, and sometimes more often, the Board may decide to increase or reduce Policy Values.

We may add an enhancement to the Policy Value when we come to work out the amount we will pay. For more information, please see the section below that describes capital distribution.

If, when we come to pay the policy benefits, the Policy Value plus any enhancement for capital distribution is more than the guaranteed benefits, we will add final bonus to the guaranteed value to bring the amount we pay up to the higher amount. If the Policy Value is less than the guaranteed benefit, we pay the guaranteed benefit. Please also see the section below that describes investment performance.

We manage a range of different types of policy within the with-profits fund. The benefits of these

different types of policy and the way the value builds up can be quite varied – for example, not all will have reversionary bonuses added. Overall, we aim that the total of all Policy Values and any enhancement for capital distribution should always be reasonably close to the value of the with-profits fund (adjusted for our solvency capital needs and for the costs of guarantees and uncertainties we describe below).

## *Capital Distribution*

In order to ensure fairness between policies leaving and remaining in the with-profits fund, the Society needs to ensure that payout levels both distribute a fair share of the solvency capital of the fund and also leave sufficient solvency capital for those policies remaining.

To meet this objective, since 1 April 2011, the Society adds a "Capital Distribution Amount" as an enhancement to Policy Values when calculating with-profits payouts. The Capital Distribution Amount at any time represents the Board's view of the prudent share of solvency capital that can be earmarked for distribution to policyholders. From 1 April 2011 (until changed), the Capital Distribution Amount is based on 12.5% of the Policy Value at 31 December 2010. The Society's intention is that the level of the Capital Distribution Amount will be reviewed no less than annually, and set at rates reflecting the Society's desired level of solvency capital at those times. This enhancement is not guaranteed - it can be removed, reduced or increased at any time without prior notice to policyholders.

## *Smoothing*

We aim to control the policy value carefully so that it does not change quickly and unexpectedly in the way that the values of the fund's investments can. This is often called 'smoothing'. The payments we make may not go up as quickly when the value of our investments rises, but also payments may not fall as quickly when the value of our investments falls.

We limit the amount of smoothing we do because we need to maintain financial strength. This means that the Policy Value is the smoothed amount the Board believes is broadly appropriate for each policy, taking account of all the circumstances and not simply the result of the investment returns on the fund.

## Charge on contributions

Each contribution is invested after deducting a charge. For example, if the policy specifies a charge of 5%, £950 of a £1,000 contribution would be invested. Please refer to your policy documentation for charges that apply to your policy.

## What may affect the value of the with-profits fund?

There are a number of things that can affect the value of the with-profits fund. Some of the main ones are described below.

### a) Investment performance

A large percentage of the total value of the with-profits fund is needed to cover the benefits we have guaranteed to pay under policies. This means we have to be very cautious in how we invest the fund. We invest it mostly in fixed-interest investments so that we can meet these guaranteed benefits when they are due to be paid. For many policyholders the amount paid will be limited to the guaranteed amount described in the policy – see also 'How we work out the amount we will pay'.

Investing mostly in fixed-interest investments helps reduce risk. It protects you when share prices fall, but also limits the money the fund earns when share prices rise.

### b) Our expenses and tax

All expenses and tax related to the with-profits business are paid out of the with-profits fund. We aim to spread the cost fairly across all policies. The types of expenses we have to pay include:

- fees paid for administration services;
- our business expenses such as projects and reviews (for example, when we are asked to carry out a review or project by our regulator the Financial Conduct Authority); and
- our staff's salaries.

Paying these costs reduces the amount we have available to pay out to you in bonuses.

We aim to maintain a deduction for expenses and tax that allows the cost of administration to be spread across the different generations of policyholders. The current deduction is 1% p.a.

### c) The cost of guarantees

We need to have enough money to pay out at least the guaranteed amount described in each with-profits policy. In some circumstances, the guaranteed benefits in a policy are worth more than that policy's fair return from the with-profits fund. The total cost of meeting all the guarantees under all

our policies is shared by all with-profits policyholders (not just certain groups of policyholders). We do this by holding back some of the funds which would have been used for other, non-guaranteed, policy benefits. Holding back funds reduces the policy payments now, so we regularly review how much money we need to meet the guarantees to make sure we pay out as much as possible to you.

The Society currently makes a charge of 0.5% per annum to provide capital to meet the expected cost of guarantees (i.e. the additional cost where a policy's guaranteed benefits exceed its Policy Value, now or in the future).

### d) How we manage risks

The value of the with-profits fund is affected by the profits and losses of running all our policies. We face risks with the investments that we make, but we invest cautiously to reduce these risks as much as possible. That is why most of our investments are in areas that provide a fixed rate of return.

Our non-profit policies, where the benefits are fixed at the start, may also produce profits or losses for the with-profits fund.

We also have to be able to respond to a number of uncertainties which could affect the benefits you receive. We regularly review all our business and aim to have enough money available to manage these uncertainties. You can find a full description of the uncertainties we face in the Principles and Practices of Financial Management (PPFM) on our website at [www.equitable.co.uk](http://www.equitable.co.uk).

Holding back funds reduces policy payments now, so we regularly review how much money we need to manage the uncertainties to make sure we pay out as much as possible to you.

## 3. Cashing in your with-profits investment early and transferring it

If you cash in the with-profits part of your policy before the policy reaches the end of its contract or you retire, we may pay a 'surrender' value or a 'transfer' value.

Depending on the type of policy, this can allow us to:

- pay a cash sum to you;
- transfer a lump sum to another insurance company; or

- transfer an amount to unit-linked funds within the same policy, if your policy allows this. A unit-linked fund is where the premiums you pay buy units in the fund and the value of the policy is based on the day-to-day price of the units you have bought.

When you cash in your policy early or transfer it, we currently reduce your Policy Value and any enhancement for capital distribution by a financial adjustment to determine the surrender value or transfer value. You need to be aware that the Policy Value plus any enhancement for capital distribution may be significantly less than the guaranteed benefits described above even before the financial adjustment.

We use the financial adjustment to reduce the amount payable to you so that it does not harm the financial position of the other policyholders (while still paying you a fair amount). In these circumstances, the cost of future guarantees and the risks the Society faces are borne by a smaller group of policyholders. The financial adjustment helps to offset those effects on the remaining policyholders.

## 4. The Equitable unit-linked approach

Unit-linked life and pension funds available to the Society's investors (except for the Equitable Life guaranteed equity funds) are managed by Scottish Widows Investment Partnership Limited.

### Unit prices

There are separate prices quoted for pension and life assurance business, reflecting their different tax treatment. Unit prices are directly linked to the value of the underlying investments and therefore the unit price can go down as well as up.

Each unit-linked fund quotes two prices.

### Offer price

This is the higher of the two prices and is the price at which units are normally allocated. For the pension funds, the offer price is set so that the bid price is 95.5% of the offer price. For the life funds the offer price is set so that the bid price is 95% of the offer price.

### Bid price

This is the lower of the two prices, and is the price used when the units are realised. The bid price is based on the value of the assets in the fund and reflects dealing and other expenses. The value of the

property assets is generally a matter of a valuer's opinion rather than fact.

### Charge on contributions

For the pension funds, the offer price currently includes a charge of 4.5%.

For the life funds, the offer price currently includes a charge of 5%.

Certain plans receive an enhanced allocation rate to offset some or all of the charge included in the offer price. The charge can be varied at the Actuary's discretion, having regard to the Society's costs.

### Charges for managing the funds

A management charge applies currently at the rate of 0.5% per annum of the value of the fund, and is deducted on a daily basis. Where the fund invests in another fund of the Equitable group, arrangements will be made to ensure that no double charging occurs.

In addition to the management charges, the costs (if any) of buying and selling assets and so on are met by the relevant funds. In the case of the Property Fund, the costs of managing the properties and the valuation fees are paid out of that fund.

### Income from the investments

All income from the investments arising from distributions of unit trusts, dividends, rents and interest is accumulated within the respective investment funds, so increasing the value of the fund units.

### The range of Pension and Life funds

Not all funds are available to all products; please refer to your policy documentation for details.

### The Equitable Managed Fund

The investment objective of the fund is to maximise the overall return from investments covering UK and overseas equities, gilt-edged and fixed-interest stock and property.

### The Equitable Pelican Fund

The investment objective of this fund is to achieve long-term capital growth by investing mainly in UK companies.

### The Equitable UK FTSE 100 Index-Tracking Fund

The investment objective of this fund is to aim to match as closely as possible, subject to the effect of charges, the capital performance and net income yield of the FTSE 100 Index.

### *The Equitable UK FTSE All-Share Index-Tracking Fund*

The investment objective of this fund is to aim to match as closely as possible, subject to the effect of charges, the capital performance and net income yield of the FTSE All-Share Index.

### *The Equitable Property Fund*

This fund invests in a carefully selected portfolio of properties from the office, shop, factory and warehouse sectors of the market in the UK, let on long leases to quality tenants with regular rent reviews. Particular attention is given to the location of such properties. In addition, there may be investment in stocks and shares of property companies from time to time or in development situations.

### *The Equitable European Fund*

The investment objective of this fund is to achieve capital growth in the long term by investing mainly in European companies, excluding the UK.

### *The Equitable North American Fund*

The investment objective of this fund is to achieve capital growth in the long term by investing mainly in North American companies.

### *The Equitable Far Eastern Fund*

The investment objective of this fund is to achieve long-term capital growth by investing mainly in Far Eastern companies (excluding Japanese companies).

### *The Equitable Japanese Fund*

The investment objective of this fund is to achieve long term capital growth from investments in a broad range of Japanese companies.

### *The Equitable International Growth Fund*

The investment objective of this fund is to achieve capital growth in the long term by investing in a diversified global portfolio.

### *The Equitable Ethical Fund*

The investment objective of this fund is to achieve capital growth in the long term by investing in companies whose activities are considered ethical, both in terms of their primary activities as well as in the means of achieving them.

### *The Equitable Fund of Investment Trusts*

The investment objective of this fund is to achieve capital growth in the long term by investing mainly in Investment Trust companies.

### *The Equitable High Income Fund*

The investment objective of this fund is to provide

a high and increasing income, together with prospects of capital appreciation over the longer term, derived mainly from a portfolio of securities in UK companies.

### *The Equitable Gilt and Fixed Interest Fund*

This fund aims to produce a high level of income with the possibility of capital growth if, for example, interest rates fall. The return is derived mainly from an actively managed portfolio of gilt-edged and other fixed-interest investments, including money on deposit.

### *The Equitable Index-Linked Gilt Fund*

This fund aims to maximise the overall return on a portfolio of index-linked securities issued by H.M. Government.

### *The Equitable Special Situations Fund*

The investment objective of this fund is to achieve capital growth by active investment in UK companies with above average potential for growth.

### *The Equitable Smaller Companies Fund*

The investment objective of this fund is to achieve long-term capital growth by investing mainly in smaller companies, principally in the UK.

### *The Equitable Guaranteed Equity Fund*

This fund invests in a mixture of fixed-interest deposits and financial options. It consists of four sub-funds, each of which operates on an annual basis. The bid price for each sub-fund on any annual date, will be the same as one year earlier, increased by a proportion of the rise, if any, in the FTSE 100.

### *The Equitable Money Fund*

This fund aims for maintenance of capital values, with reinvestment of income at attractive rates of interest on short-term deposits thus providing sufficient liquidity in a fund that can be used as a short-term investment vehicle. The fund invests in all forms of interest-bearing money instruments where the capital is at low risk – normally in the UK.

### *Additional unit linked funds available to Group Pension Products*

The scheme trustees have the discretion to make these funds available to scheme members. However, if a member transfers their benefits to another Equitable policy these funds would not be available under the new policy.

### *The Equitable Deposit Account Fund*

Contributions paid into this fund will be credited with the compound rate of interest offered by Bank of Scotland.

Investments in this fund represent money on deposit and receive an interest rate which is linked to the Bank of England base rate.

#### *Clerical Medical funds*

You may also invest in Clerical Medical unit-linked funds through certain Equitable products. The funds available are:

Clerical Medical With-Profits Pension Fund  
 Clerical Medical Balanced Pension Fund  
 Clerical Medical Cautious Pension Fund  
 Clerical Medical Adventurous Pension Fund  
 Clerical Medical Non-Equity Pension Fund  
 Clerical Medical UK Growth Pension Fund  
 Clerical Medical Ethical Pension Fund

For more details about these funds please refer to the Clerical Medical website at:  
[www.clericalmedical.co.uk](http://www.clericalmedical.co.uk)

## 5. Switching facility

There is the facility to switch between funds. There is no guarantee whatsoever of the value on switching between any of the funds.

All switch instructions received before 5 pm on a working day will be processed at the next working day's fund prices. Switch instructions received after 5 pm on a working day will be processed using the fund prices at the next working day plus one. For example an instruction received at 3 pm Tuesday would be processed using Wednesday's fund prices. An instruction received at 6 pm Tuesday would be processed using Thursday's fund prices. The Society has the right to defer the cancellation of units in certain circumstances and may exercise this right when it feels appropriate.

#### Switch charge

Currently, there is no switch charge, but the Society reserves the right to apply a charge in the future without notice.

#### Switching out of the Equitable with-profits fund

The amount payable on a switch out of the with-profits fund is not guaranteed and may be less than the guaranteed benefits. Where a member chooses to switch out of the with-profits fund to unit-linked funds, a financial adjustment may be made to the switch amount, to protect the interests of the remaining with-profits policyholders.

The with-profits value, less the switch charge (if any), secures new units in the chosen funds, currently at the bid price.

#### Switching between Equitable unit-linked funds or into the Equitable with-profits fund

The value of the units to be switched is calculated at the bid price. This value, less the switch charge (if any), then buys new units in the chosen funds also at the bid price. If switching into with-profits, the value is invested without any contribution charge being deducted.

Switches into with-profits will only be allowed if the switch is in accordance with the terms and conditions of the policy. Where benefits are being switched back to with-profits from unit-linked funds following a previous switch out of with-profits, the Society reserves the right to apply terms such that a proportion of the resulting with-profits benefits will be held as non-guaranteed final bonus similar to that prior to the original switch out of with-profits. Alternatively the amount of with-profits fund purchased may be adjusted in cases involving frequent switches in and out of with-profits to protect the interests of those policyholders who remain in the with-profits fund.

## 6. Allocation of future contributions

In addition to the switching facility, contributions may be directed into different funds, or in different proportions than previously requested, without an administration charge.

Further contributions to purchase with-profits benefits will not be allowed unless payments to date have been in accordance with policy and contractual conditions.

## 7. Further Information

If there is anything which you do not understand, or if you would like more information about any aspect, please contact us.

Further information about Equitable funds and products is available on our website [www.equitable.co.uk](http://www.equitable.co.uk).

The same information can be obtained by calling our contact centre on 0845 603 6771

All documents for our products and any further communications will be supplied in English.

## Note

This leaflet applies in its entirety to the following plans:

*Personal Pension Plans (excluding the 2000 version)*  
*Individual Pension Plans*  
*Free-Standing AVC Plans*  
*Money Purchase Transfer Plans*  
*Retirement Annuities*  
*Group Pension Plans*  
*Personal Pension Trustee Investment Policies*  
*Managed Pension Plans*  
*Income Drawdown Plans*  
*Income Drawdown Transfer Plans*  
*Personal Pension Trustee Income Drawdown Policies*  
*Personal Investment Plans*

For the following contracts, having selected with-profits or unit-linked investment at the outset, there is no option subsequently to switch from with-profits to unit-linked, or vice versa.

*Bonds*  
*Flexible Protection Plans*  
*Critical Illness Plans*  
*Major Medical Cash Plans*

The information contained in this leaflet is based on the Society's understanding of current legislation.

Information will only be given on Equitable group products.

For security and training purposes, telephone calls may be recorded.

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The Equitable Life Assurance Society is a mutual society registered in England No. 37038.

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