

For customers

Our unitised and new generation with-profits funds

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What's this guide for?

You have the option of investing, or have already invested, in one or more of our unitised or new generation with-profits funds. We've sent you this guide so that you can find out more about how these funds work and what you can expect if you invest in them.

Scottish Equitable plc (trading as AEGON Scottish Equitable) used to be Scottish Equitable Life Assurance Society, which was a mutual company. You may have invested in your with-profits fund with us then.

On 31 December 1993, the business and assets of Scottish Equitable Life Assurance Society were transferred to Scottish Equitable plc as part of the demutualisation process as we changed to a public limited company.

What funds does this guide cover?

The identifier after the fund name is how you might see it referred to in your yearly statements.

Our unitised with-profits funds

- Unitised With-Profits (WPE)
- Unitised With-Profits (WPC)
- Unitised With-Profits (WWP)
- Unitised With-Profits (WP1)
- Unitised With-Profits (WP2)
- Unitised With-Profits (DAF)
- Unitised With-Profits (DA2)
- Unitised With-Profits (WPB)
- Unitised With-Profits – Deposit Administration (WP)

What's this guide for? *(continued)*

Our new generation with-profits funds

- With-Profits Life Growth Fund (WGR)
- With-Profits Life Cautious Fund (WCS)
- With-Profits Pensions Growth Fund (WGW)
- With-Profits Pensions Cautious Fund (WCA)

You may wish to ask your financial adviser which of these funds you have the option to invest in, or you can contact us for details. You can find our contact details below.

If you've already invested in one of these with-profits funds, you should find the fund name in your yearly statement.

The main differences between the two types of with-profits funds are over the way we make regular and final additions to your investment and what happens if you leave the funds early. The table below summarises the differences and we explain them in more detail in the relevant sections of this guide.

	Unitised	New generation
Regular additions	Yearly bonus: either added to the fund as a single amount or through a daily increase in unit price	Taken into account in daily unit price
Final additions or reductions	Final bonus	Positive or negative smoothing adjustments
Adjustment if you leave early	Market value reduction or final bonus	Positive or negative smoothing adjustments

We explain any investment terms as we go through the guide, but you can also find them listed in the 'Definitions' section.

What's not included?

This guide doesn't cover our traditional with-profits contracts. If you'd like our guide *About our traditional with-profits plans*, you can download it from our website or contact us for a copy.

Where can I find out more?

We've also produced a detailed technical guide on our with-profits management strategy: *Principles and Practices of Financial Management of With-Profits Business*. This is available on our website or from us at the address opposite.

If, when you've read this guide you still have questions about investing in new or existing with-profits funds, please take advice from your financial adviser.

We can't give you any advice, but if you'd like further information on the funds or how we run them, please contact us:

[AEGON Scottish Equitable](#)
Edinburgh Park
Edinburgh
EH12 9SE

0870 242 6789

www.aegonse.co.uk

If we change our with-profits principles or practices, we'll let you know.

Definitions

Asset classes

What the funds can invest in, for example shares, bonds and property.

Contract charges

Charges as defined in your policy conditions booklet (for example the yearly charge we take from your fund). Market value reductions aren't included in these.

Expected growth rate (EGR)

The EGR for each fund is our estimate of the long-term rate of return for each fund's investment.

Estate

The estate is the excess of the total assets of all our with-profits business over the amount needed to meet the corresponding liabilities. It's held back to cover the risk of unforeseen circumstances affecting our ability to meet the guarantees to our with-profits investors and it also pays part of the cost of the with-profits investment guarantees. It'll ultimately all be paid out to all with-profits investors (apart from those invested in the new generation with-profits funds).

Final bonus

An additional amount we may add to your payout when you leave the fund. This doesn't apply to new generation with-profits funds.

Guaranteed annuity option

An option under certain pension contracts to convert the fund available at retirement to an annuity on guaranteed terms, as set out in the policy conditions booklet.

Guaranteed benefit

The amount we guarantee to pay you at a specific time, such as a sum assured on maturity, or added to your with-profits investment as a yearly bonus. You can find details of these benefits and when they're paid in your policy conditions booklet.

Market value reduction (MVR)

A reduction that we may apply to your payout when you leave a unitised with-profits fund.

New generation with-profits funds

With-profits funds that don't use yearly or final bonuses to pay out to investors but instead use a smoothed unit price that changes on a daily basis.

Smoothed asset share

Only for the unitised with-profits funds. This is a calculation we use when setting bonus rates and market value reductions. It's done for each policy and is basically the income, including contributions and investment returns (with an allowance for smoothing), less outgoings, including any expenses or charges.

Smoothing

Returns are 'smoothed' over the investment's term. In other words, in good years some return is held back to be used for years when returns aren't so good. This gives the investor a return that fluctuates less over the years.

Smoothing adjustment

Only for the new generation with-profits funds. This is an adjustment, which may be up or down, that we may apply to your payout when you leave the fund. This is in order to be fair to investors who are leaving the fund and to those who are staying.

Unit

Each of our new generation with-profits funds is made up of units and each payment you make buys a number of units in the funds you choose.

Unitised with-profits fund

This type of with-profits fund is made up of units and each payment you make buys a number of units. Our unitised with-profits funds (but not our new generation with-profits funds) share out their profits and losses to investors through a system of yearly bonuses with final bonuses or market value reductions. They may also offer you a level of guaranteed benefit (this doesn't apply to new generation with-profits funds) as set out in the policy conditions booklet.

With-profits

A type of investment where the investor shares in the profits (and losses) of the fund.

Yearly bonus

Also known as regular bonus. This is an amount we may add to your unitised with-profits fund. It's a regular addition, normally every year, but as we set the bonus rate every year the amount will vary from year to year. This doesn't apply to new generation with-profits funds, as they don't give bonuses.

With-profits

What's a with-profits investment?

In this type of investment you share, with the other fund investors, in the profits and losses of the fund you've invested in. Each fund makes profits and losses both from its investments and from investors leaving it.

Another key element of a with-profits investment is smoothing. The way this works is that in years when investment returns are good we, in effect, hold some return back to use in years when investment returns aren't so good. This means you have the potential for less variable returns year on year than if you'd invested direct in, for example, the stock market. Please note though that smoothing won't be able to counteract the impact of a sustained decline in investment returns.

Although smoothing means that we spread investment profits from one year to the next, our aim is to pay out all of the investment profits earned by the fund over the long term. When you leave the with-profits fund, we may adjust your payout upwards or downwards to make sure you receive your fair share of the total fund growth and to protect the interests of the continuing investors.

How does it work?

If you invest in one of our with-profits funds, your money is put with that of other investors in that fund. This 'pooling' of investments generally means you have access to a better spread of assets (in other words what you can invest in, such as shares, bonds and property) than if you'd invested on your own. It can also help spread the risk and the costs.

Each of our unitised and new generation with-profits funds are made up of units and each payment you make buys a number of units in the fund you choose. The value of your investment then depends on the price of the units you hold.

We invest the funds in a mix of company shares (equities), fixed interest securities (for example loans to the Government or large corporations), cash and potentially property. These different types of investment are known as classes of assets. You can find more details on this in the sections 'Where are these with-profits funds invested?' for both types of fund. The return on these investments is paid back into the fund.

Our unitised with-profits funds

If you've only invested, or only have the option of investing, in one of our new generation with-profits funds, please go to the next section – 'Our new generation with-profits funds' – for details of how those funds work.

What are unitised with-profits funds?

This type of with-profits fund shares out its profits and losses to investors through a system of yearly bonuses with a final bonus or market value reduction. Under many of these funds there may be some guarantees of what you'll get back.

Our unitised with-profits funds have different guaranteed rates of return. These guaranteed rates of return only apply if you keep your investments until a specific point in time as defined in your policy conditions booklet (for example your chosen retirement date under a pensions contract, on death or on the 10th anniversary of investment for certain with-profits bonds). At other times these guarantees may not apply.

Many of these funds are now closed to new business (in other words they won't accept new investors) but they may still accept contributions from existing investors.

Name of unitised with-profits fund	When available	Closed to business?	Guaranteed rate of return
WP Endowment (WPE)	First made available under unitised pensions contracts during 1984.	Yes. It also closed to all future contributions on 31 October 1999.	Generally around 5.5% a year
With-Profits (C) (WPC)	Available under our unitised Mortgage Link contract.	Yes, but still accepts renewal contributions and increments.	3.9% a year
Whole of Life WP (WWP)	Available under our unitised Passport for Life contract.	Yes, but still accepts renewal contributions and increments.	2.7% a year
With-Profits option 1 (WP1)	Available under new unitised pensions contracts from 1 January 1996 to 31 October 1999.	Yes. It also closed to all future contributions on 31 October 1999.	4.0% a year
H. Equ-WP (WP2)	Available under new unitised pensions contracts from 1 February 1996 to 30 September 2002.	Yes, but still accepts renewal contributions and increments. New entrants to certain existing group pension schemes also have access to this fund.	Unit price is guaranteed not to fall.
Deposit Admin Fund (DAF)	Available under new unitised pensions contracts from 3 June 1996 to 30 September 2002.	Yes, but still accepts renewal contributions and increments. New entrants to certain existing group pension schemes also have access to this fund.	Unit price is guaranteed not to fall.
Deposit Admin 2 (DA2)	Available under new unitised pensions contracts from 1 September 1999 to 30 September 2002.	Yes, but still accepts renewal contributions and increments. New entrants to certain existing group pension schemes also have access to this fund.	3.0% a year
With-Profits Bond (WPB)	Available under new with-profits bond contracts from 1 November 1996 to 30 September 2002.	Yes, but still accepts increments.	Unit price is guaranteed not to fall.
Deposit Administration (WP)	We have a number of 'deposit administration' contracts (mostly within our Reflex contract) where investors are entitled to certain guaranteed rates of return. These don't invest in equities.	Reflex contract closed to new business in 1984, but it still accepts renewal contributions and increments.	Reflex WP Fund – 5.0% a year

Where are these with-profits funds invested?

Each of these with-profits funds has its own investment strategy in order to meet its guarantees. They invest in a mix of different asset classes, with the main ones being UK and overseas equities, UK fixed interest securities, property and cash.

Each fund has a target range for the percentage it invests in a combination of equities and property.

The current target ranges are:

WPE, WPC and WWP: 15% to 20%

WP1, DAF and DA2: 17.5% to 22.5%

WP2 and WPB: 52.5% to 57.5%

Deposit Administration: 0%

Within these target ranges, we hold a mix of assets to reduce risk. We may vary these ranges in future if we think it necessary, for example reducing the target equity and property ranges at times when the cost of meeting the guarantees is high in comparison with the value of the assets held. You can find details of the current asset mixes on our website (www.aegonse.co.uk). We update them every three months.

What type of bonuses may be added?

Bonuses are how we pay you your share of the profits of your with-profits fund. There are two types of bonus: yearly (also known as regular) and final (also known as terminal).

Yearly bonuses

We set a yearly bonus for each unitised with-profits fund. We add this to your with-profits investment; it's not paid out to you as a lump sum. Once it's added to your investment it can't be taken back, unless you leave the investment early and then we may make an adjustment.

- WP2, DAF, DA2, WPB and Deposit Administration (excluding Reflex contracts) funds

For these funds, we set the yearly bonus rates in advance, usually once a year on 1 April. We then work out how much this adds on a daily basis to the units you've bought in your chosen funds over the next 12 months.

- WPE, WPC, WWP, WP1 and Deposit Administration (Reflex contracts) funds

For these funds, we set the yearly bonus rates in arrears (in other words at the end of the year for that year), usually once a year on 31 December. We then add the yearly bonus as a stand-alone payment. If you leave the fund midway through the year, before we've set the bonus rate, we may add an interim yearly bonus to your payout.

Within each with-profits fund, all the investors in that fund currently get the same rate of yearly bonus.

Final bonuses

We may pay out a final bonus when you leave the fund, for example when you cash in your investment or your policy reaches maturity. You're not guaranteed to get a final bonus; it depends on market conditions at that time. You can find more information on this in the 'How do you decide the bonuses and market value reductions?' section.

Market value reductions

If you cash in your unitised with-profits investment early (either fully or partially), we may also apply a market value reduction (MVR), which will reduce your payout. There may be specific points in time an MVR won't apply, for example if you retire under a pensions contract at your chosen retirement date. You can find more details on this in the following section.

Deposit administration contracts don't have final bonuses or MVRs.

What affects the bonuses that might be added?

Various factors affect how much you'll get in bonuses.

These include:

- the performance of the fund's investments – this is the biggest factor
- the effect of taxation – for example pension funds have to pay less tax than life funds
- the guaranteed rates of return under your fund and the cost of meeting them (the bonus will be worked out as how much we can afford to give you on top of the guaranteed return)
- the smoothing of investment returns (see the section 'How do you decide the bonuses and market value reductions?')
- the yearly charge we take from your fund (you can find details of this in your personal illustration, which you get when you first invest)

- market value reductions (see the section ‘What if I decide to cash in my investment?’)
- the cost of meeting some other guarantees – for example, we offered minimum pension guarantees (including guaranteed annuity options) under a number of contracts written mainly in the 1970s and 1980s. As people are now on average living longer and interest rates have fallen over time, the cost of meeting these minimum guarantees has increased. This may affect the bonuses paid out to investors in those with-profits funds.
- any enhancements from the estate (see the section ‘What’s the estate?’)

How do you decide the bonuses and market value reductions?

Smoothed asset share

When deciding our bonuses and market value reductions we use what’s known as the smoothed asset share. This is a calculation we do for each policy and is basically a calculation of the income less outgoings. The income includes:

- the value of your contributions paid in
- the earned investment return – this includes an allowance for smoothing (we currently do this by averaging the actual returns in the one to two years before our calculation and the expected returns in the one to two years after)
- any enhancements paid in from the fund’s excess assets, known as the estate (see the section ‘What’s the estate?’)

The outgoings include:

- any expenses or charges
- deductions for the cost of future investment guarantees

We expect that, over the long-term, enhancements from the estate will exceed deductions for the cost of future investment guarantees, although we can’t guarantee this.

Yearly bonus rates

When we calculate the yearly bonus rate for each fund, we look ahead to the end of the investment term and how we expect the smoothed asset shares to compare with the benefits we’ve guaranteed to pay you. If we expect the guaranteed benefits to be high in comparison to the smoothed asset shares, we’ll set the yearly bonus rate low. If we expect the guaranteed benefits to be low in comparison with the smoothed asset shares, we’ll set the yearly bonus rate higher.

We take a prudent approach when setting yearly bonus rates to make sure that we can meet your guaranteed benefit. However, if this prudence turns out to be unnecessary and the smoothed asset share ends up higher than the guaranteed benefit, you’ll get a final bonus to take account of this (see the following section on final bonus rates for more detail on this).

We also need to make sure that the yearly bonus rates aren’t set at levels that could jeopardise the overall financial position of the company.

Final bonus rates and market value reductions

We apply different rates of final bonus and market value reductions (MVRs) to each unitised with-profits fund. We usually review these every three months.

With unitised with-profits contracts, each individual amount you invest in the fund secures a certain amount of benefits. So final bonus rates and MVRs depend on how long it is since you made each investment. We may change this approach in the future.

In calculating final bonus rates and MVRs, we again look at the relationship between smoothed asset shares and guaranteed benefits. For this we group together policies with similar characteristics. For example, we’d normally group together investments made in the same month.

If smoothed asset shares exceed guaranteed benefits, then when an investor leaves the fund they’ll get a final bonus. If the opposite applies, then we’ll apply an MVR. However, in some circumstances we won’t apply MVRs, even if smoothed asset shares are less than guaranteed benefits. These circumstances include:

- retirement under a pensions contract at the chosen retirement date
- withdrawal at the 10th anniversary of investment under certain with-profits bonds
- death
- regular income withdrawals up to a specific level under our With-Profits Bond and Retirement Control contracts

What if I decide to cash in my investment?

You may decide to cash in your with-profits investment before your planned maturity date, perhaps because you want to switch out of one of our with-profits funds into one of our other funds, take early retirement or transfer your investment to another company.

If you withdraw early from a unitised with-profits fund, we may apply a final bonus or MVR to your current unit value (which includes yearly bonus additions to date). You can find details of how we calculate final bonuses and MVRs in the section ‘How do you decide the bonuses and market value reductions?’.

Given that with-profits investment is considered a long-term investment, it may not be in your best interests to cash in your investment early.

If you’re unclear on whether with-profits investment is right for you, you should ask your financial adviser for advice.

What are the guarantees?

All these with-profits funds have different guarantees. You can find these listed under ‘What are unitised funds?’.

Are there any expense risks associated with investing in the funds?

There are no expense risks for you.

We deduct daily from the funds an agreed charge that’s designed to cover our running costs. If our running costs are higher than expected, we’ll pay the shortfall. You won’t pay extra, so there’s no risk to you.

What’s the estate?

The estate is the excess of the total assets of all our with-profits business over and above the amount needed to meet the corresponding liabilities. As a company, we have no financial interest in the estate. We hold it for the benefit of our with-profits investors and it’ll ultimately all be paid out to them through enhancements to the smoothed asset shares, which then affect final bonuses and market value reductions.

The estate covers the risk of unforeseen circumstances affecting our ability to meet the guarantees to our with-profits investors. We also use the estate to meet part of the expected cost of guarantees, with the balance coming from a monthly deduction taken into account in the smoothed asset share calculations (for more on this see the section ‘How do you decide the bonuses and market value reductions?’).

Our with-profits business with guarantees will decrease over time. This is because our new generation with-profits funds don’t have guarantees and most of our with-profits funds with guarantees are now closed to new business. So the size of the estate will reduce over time.

Our new generation with-profits funds

What's a new generation with-profits fund?

Our new generation with-profits funds work in a different way to our unitised with-profits funds.

As described in the previous section, our unitised with-profits funds share out their profits and losses to investors through a system of yearly bonuses with final bonuses or market value reductions, and there may be some guarantees of what you'd get back.

However, new generation with-profits funds don't use bonuses or market value reductions. Instead, we calculate a smoothed unit price daily for each fund. For each fund we decide what we expect the long-term return on the investments to be, and the smoothed unit price depends mainly on how the actual investment return compares with this expected return. There are no guarantees under this type of with-profits fund (so the unit price can fall). You can find more details in the 'Smoothing' section.

We may apply a smoothing adjustment, upwards or downwards, to your payout when you leave the fund. This is to make sure you get your fair share and to protect the interests of our remaining investors. You can find more details on smoothing adjustments in the section 'What if I decide to cash in my investment?'.

Each of our new generation with-profits funds is ring-fenced, which means that all investment profits and losses, as well as profits and losses arising from investors leaving the fund, are shared within the fund and are reflected in payouts to investors.

What affects how much I might get?

Various factors affect how much you'll get. These include:

- the performance of the fund's investments – this is the biggest factor
- the effect of taxation – for example pension funds have to pay less tax than life funds
- the smoothing of investment returns (see the 'Smoothing' section)
- smoothing profits and losses (see the 'Smoothing' section)
- the yearly charge (called the annual management charge) we take from your fund (you can find details of this in your personal illustration, which you get when you first invest)
- smoothing adjustments (see the section 'What if I decide to cash in my investment?')

You also need to consider inflation. While it won't affect the actual amount you'll get back, it can have an impact on that amount's buying power. The real return to you is the actual return on your investment after adjusting for the rate of inflation over the time you're invested. If actual returns don't keep pace with inflation, your real return will reduce, and vice versa.

Where are these new generation with-profits funds invested?

Our With-Profits Life Growth fund and With-Profits Pensions Growth fund invest a relatively large proportion in equities (company shares), with the balance in fixed interest securities. The With-Profits Life Cautious fund and With-Profits Pensions Cautious fund invest a relatively high proportion in fixed interest securities, with the balance in equities and potentially in property. Your financial adviser will be able to advise you if these funds are suitable for you.

Each fund has a target range for the percentage it invests in each of the main asset classes. The current target ranges are:

With-Profits Life Growth fund and With-Profits Pensions Growth fund

UK and overseas equities: 60% to 90%

UK and overseas fixed interest securities: 10% to 40%

Cash and others: 0% to 5%

With-Profits Life Cautious fund and With-Profits Pensions Cautious fund

UK and overseas equities: 20% to 50%

UK and overseas fixed interest securities: 30% to 70%

Property: 0% to 25%

Cash and others: 0% to 5%

Within these target ranges, we hold a mix of assets to reduce risk. We may vary these ranges in future. You can find details of the current asset mixes on our website (www.aegonse.co.uk). We update them every three months.

Smoothing

What is smoothing?

Smoothing is a key part of how our with-profits funds work. The fund invests in shares (also known as equities) and fixed interest investments. Together these are known as the underlying investments. The value of these underlying investments changes every day – sometimes going up and sometimes going down. Which means that, in normal circumstances, the value of your investment would also rise and fall. But here's how your with-profits fund's smoothing helps cushion you from the worst of these swings.

When the value of the underlying investments rises more quickly than we expect, we keep some money back. We then use this to top up the value of the underlying investments when they fall (or rise less quickly than we expect). Using it means that the change in value of funds won't be as dramatic as that of the underlying investments.

Although smoothing can provide a certain amount of protection, it can't cancel out the impact of a sustained fall in investment returns.

How does smoothing work?

The expected growth rate (EGR)

We set an estimated growth rate – which is an estimate of how well we expect the underlying investments of the fund to grow over the long term. The EGR isn't guaranteed and may change in the future, and we only use it to calculate smoothing of unit prices. We show this rate as a yearly percentage but we divide it to give us a daily rate, which we then use to calculate the smoothed unit price.

We review EGRs at least once a year and we may change them upwards or downwards in the future. EGRs don't show the impact inflation may have on the real return on your investment. Real return is the actual return on your investment after adjusting for the rate of inflation over the time you're invested. Please go to www.aegonse.co.uk for details of our current EGRs.

As a company, we expect to pay more tax on life contracts than pensions ones, so life EGRs are lower than pensions EGRs.

How we calculate the unit price

Each day we compare the return earned on the underlying investments with the daily EGR. Then we calculate the daily smoothed growth rate, currently halfway between these two figures. And that's how we get the next day's smoothed price. The price of your fund can still rise and fall each day, but not as much as it would without smoothing.

People leaving the fund can also affect its price. Half of the profits or losses created in the fund by those leaving are added by the smoothing process into the next day's unit price.

We also take the fund's annual management charge into account in our unit price calculation.

Let's look at an example.

While the calculation is actually done daily, we're showing it done yearly in the example to make the process easier to understand. So, say the actual return on the With-Profits Pensions Growth fund's investments was 11% and its EGR was 9%. We'd calculate the smoothed unit price as follows:

$$\begin{array}{rcl}
 11 \text{ (actual)} & - & 9 \text{ (EGR)} & = & 2 \text{ (difference)} \\
 2 \text{ (difference)} & \div & 2 & = & 1 \text{ (half of difference)} \\
 11 \text{ (actual)} & - & 1 \text{ (half of} & = & 10 \text{ (used to calculate the} \\
 & & \text{difference)} & & \text{smoothed unit price)}
 \end{array}$$

So the unit price growth would be 10% (before any charges are deducted).

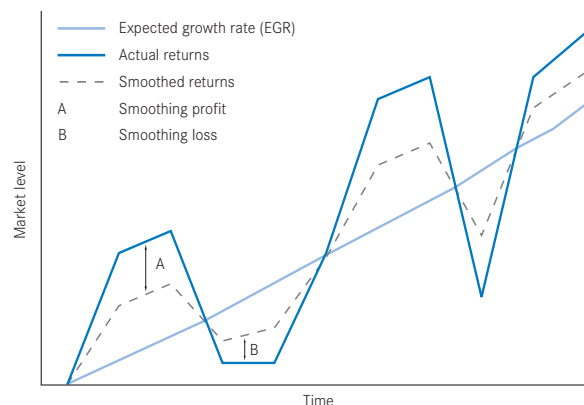
However, if the actual return was a fall of 11%, we'd calculate the smoothed unit price as follows:

$$\begin{array}{rcl}
 \text{Rise of 9 (EGR) and a fall of 11 (actual)} & = & 20 \text{ (difference)} \\
 20 \text{ (difference)} & \div & 2 & = & 10 \text{ (half of difference)} \\
 \text{Fall of 11 (actual) + 10 (half of} & = & \text{fall of 1} \\
 & & \text{difference)} & & \text{(used to calculate the} \\
 & & & & \text{smoothed unit price)}
 \end{array}$$

So the unit price would be reduced by 1% (before any charges are deducted).

In addition, whenever any investor takes money out of the fund, the fund makes a smoothing profit or loss:

- There's a smoothing profit when the growth in the smoothed unit price is less than the actual return on the fund's investments during the period the investor's been in the fund.
- There's a smoothing loss when the growth in the smoothed unit price is greater than the actual return during the period the investor's been in the fund.



The graph above shows how this works. For example, if an investor leaves the new generation with-profits fund at point A, the fund will actually have earned more from its investments over the time the investor has been in the fund than the investor will take out at the calculated smoothed return rate. This means a profit for the fund.

However, if the investor leaves at point B, the fund will actually have earned less on its investments than the investor could take out at the calculated smoothed return rate. This means a loss for the fund.

We include a proportion of these daily smoothing profits and losses, currently 50%, in our calculation of the next day's unit prices.

What are the guarantees?

There are no guarantees with these funds.

Are there any expense risks associated with investing in the funds?

There are no expense risks for you.

We deduct an agreed charge, designed to cover our running costs, from the fund on a daily basis. If our running costs are higher than expected, we cover the shortfall. You won't pay extra, so there's no risk to you.

What if I decide to cash in my investment?

If you decide to cash in your investment, we may adjust your payout by a smoothing adjustment, which may be up or down. This is in order to be fair to investors who are leaving the fund and those who are staying.

As we explained in the 'Smoothing' section, investors leaving the fund can generate a smoothing profit or loss. And when, for example, a large number of investors withdraw from the fund when the smoothed return is much greater than the actual return (as at point B on the graph shown earlier), this might generate a large smoothing loss and would pay out too much to the leaving investors. If they took the full amount of their investment at the smoothed value out, this would unfairly penalise the investors who were staying in the fund. In such cases, we may apply a smoothing reduction, which reduces the value of each leaving investor's payout.

In different market conditions we could see the reverse of this. For example, if a large number of investors withdrew from the fund when the smoothed return was much less than the actual return (as at point A on the graph), this might generate a large smoothing profit and we could pay out too little to the leaving investors. In such cases, we may apply a smoothing increase, which increases the value of each leaving investor's payout, as otherwise the investors remaining in the fund would receive more than their fair share of the smoothing profits over the whole investment period.

We won't currently apply smoothing adjustments to any claims as long as the ratio of smoothed fund value to the actual value of the fund's assets is in the range 80% to 130%. We don't do this calculation at individual policy level. For example, we may group together all investments made in a particular year and month.

Given that with-profits investment is considered a long-term investment, it may not be in your best interests to cash in your investment early.

If you're unclear on whether with-profits investment is right for you, you should ask your financial adviser for advice.

