

HOW OUR WITH-PROFITS FUND WORKS

For policies where premiums
are used to buy units

This includes policies investing in the
following funds:

Wesleyan Life With-Profits Fund

Wesleyan With-Profits ISA Fund

Wesleyan With-Profits Pension Fund

WESLEYAN

we are all about you



HOW OUR WITH-PROFITS FUND WORKS

Please take the time to read this document and keep it safe with your product literature. It explains how our with-profits fund works and how it affects the value of your investment.

This document covers policies where premiums are used to buy units in any of the following funds:

- ▶ Wesleyan Life With-Profits Fund
- ▶ Wesleyan With-Profits ISA Fund
- ▶ Wesleyan With-Profits Pension Fund

It does not cover policies where premiums are not used to buy units. If you have one of these then you may require one of these documents:

- ▶ How our with-profits fund works – for policies where premiums are not used to buy units
- ▶ How our with-profits fund works – for policies purchased from Medical Sickness Society before the transfer in July 1997.

You can ask us for a copy of either of these documents at any time, or you can find them on our website at: www.wesleyan.co.uk/savings-and-investments/with-profits-fund

This document also does not cover investments into the Wesleyan With-Profits Growth Fund or Wesleyan With-Profits Growth Pension Fund via non-Wesleyan products, made through financial intermediaries. For these investments please use the separate document, How Our With-Profits Works (for investments made through financial intermediaries), available at: www.wesleyan.co.uk/intermediaries/resources

In this document, 'we', 'us' and 'our' refer to Wesleyan Assurance Society.

When we refer to 'Policy', 'Policy document' or 'policyholder' throughout this document, this can also mean 'Plan', 'Plan document' and 'Plan holder' as your particular product may refer to 'Plan' rather than 'Policy'.

Financial advice on Wesleyan products can be provided by Wesleyan Financial Services through its team of Specialist Financial Advisers. Wesleyan Financial Services is the advice and distribution company of the Wesleyan Group of companies and is wholly owned by Wesleyan Assurance Society.

Important

This document provides brief details of how our with-profits fund works. It does not provide all the details about the product you have with us. That information is in the Policy document or Plan document, which contains the Terms and Conditions of your Policy. You can also download a copy of the Principles & Practices of Financial Management (Wesleyan Open Fund), which explains the detailed standards we apply to the management of our with-profits business. This document is available on our website at www.wesleyan.co.uk/savings-and-investments/with-profits-fund

YOUR QUESTIONS ANSWERED

1. What is a with-profits fund?

A with-profits fund is a type of investment fund offered by insurance companies, such as Wesleyan Assurance Society. The fund aims to provide growth over the long term through 'bonuses' reducing day-to-day market fluctuations through a mechanism known as 'smoothing'. Smoothing means that policy values are not expected to be as volatile as other managed funds that invest in similar assets.

A further feature of our with-profits fund is that the fund also receives profits and losses from other areas of the business including our subsidiary companies.

Some with-profits policies offer guarantees that apply in certain events, and can be valuable if units are sold when markets have fallen. Guaranteed events are covered in more detail in Question 11.

2. How does our with-profits fund work?

The money invested from your premium is used to buy units in the with-profits fund. These units represent your investment in the Fund. We aim to increase the value of your units based on the returns we make from our investments and other profits from other areas of the business, including our subsidiary companies.

We regularly review the returns on our with-profits fund and if our review shows that the returns are sufficient, we will increase the value of your units by adding bonuses.

3. How do bonuses affect my investment?

We may add regular bonuses throughout the period of your investment. We decide on a regular bonus rate that will apply to your type of Policy. We add this bonus gradually by increasing the Unit price each day.

We aim to make sufficient profits to be able to add bonuses to your payout. However, there are some circumstances when we would have to consider reducing future bonuses or even possibly stopping them altogether. This might be during periods of low investment returns and reduced Society profits (or low expected returns and profits), or in periods in which we might make losses. We might need to do this because we have to give priority to honouring guaranteed payouts under the terms of each Policy. There is more information on guarantees in Section 11.

We send you an annual statement which shows how many units you hold and their value at the statement date. When you cash in your units, you may also receive a Final bonus. We will decide how much Final bonus we are able to add at that time.

4. What affects regular bonus rates?

We aim to keep adding regular bonuses steadily over the term of the investment. Regular bonus rates depend on past and forecast future investment returns.

If we are able to forecast higher returns, we may increase the level of regular bonuses, even if the value of our investments has been falling. Similarly, if our forecasts worsen, we may start reducing the level of regular bonuses, even if the value of our investments has been rising. In certain circumstances, we might even stop adding regular bonuses altogether if poor future investment returns are forecast, particularly if past returns have also been poor.

5. What affects the final bonus amount?

A final bonus may be included when a payout is made from a policy, but it is not guaranteed and may not be paid if the level of investment returns and other profits and losses does not justify it. To calculate your final bonus, we use the following method.

- ▶ First we look at the investment returns we've had over the period of your investment, and consider our profits or losses from other areas of the business, including subsidiaries.
- ▶ We then calculate your fair share of the fund (see later in this section) and compare it with the current value of your units.
- ▶ If your fair share is higher than the value of your units, then we will add a final bonus to your policy.
- ▶ If it is not higher, you will not receive a final bonus. In these circumstances, if you are cashing in your units at a time other than a guaranteed event, we may make a deduction to your payout called a Market Value Reduction (MVR) – see Question 12 for an explanation of MVRs.

Unlike some other insurers, we don't have any shareholders, so the return on your investment is not impacted by paying dividends to shareholders.

How we work out your fair share of the Fund

We do a calculation which brings together the amounts you have invested in the Fund with your share of investment returns and other profits and losses.

For most policies,

- ▶ we take the amounts you've invested in the fund, then
- ▶ deduct any money you've previously taken out of the Fund, then
- ▶ deduct charges, and finally
- ▶ we make adjustments for investment returns and other profits and losses attributable to the Fund, allowing for smoothing.

We deduct charges in line with your Policy Terms and Conditions. As with all our investment funds, investments into the with-profits fund are subject to the Annual Management Charge (AMC), which contributes to the costs of running the Fund. For those policies that have protection cover included, we may also apply charges to meet the cost of any death or illness benefits you may receive.

If you have chosen to opt in to the Ongoing Advice Service (OAS) provided by Wesleyan Financial Services, your AMC will include the cost of this service.

The adjustments we make for investment returns and other profits and losses are, for most policies, made throughout the period that you hold units in the Fund. We work this out based on regular reviews of the performance of our investments, and profits and losses from other areas of the business (including subsidiary companies).

6. How does smoothing work?

One of the main aims of the with-profits fund is to reduce the effect day-to-day fluctuations on the value of your policy. In order to achieve this, we don't just pass on the full amount of the investment returns, and other profits and losses, as they arise. Instead, we apply any changes to the value of your investment over time, cushioning the impact in a process known as smoothing.

In periods of good investment returns we may hold some of the return back, which in turn allows us to pay out more in periods when investment returns are lower than expected.

We aim that this will balance out over time, and that over the long term all the investment returns generated within the fund are distributed to policyholders.

If we did not apply smoothing, the value of the fund would be calculated solely by using the actual investment returns and profits and losses from other areas of the business. This would result in day-to-day fluctuations in the value of your investment.

See Figure 1 below for an illustration of how smoothing works.

7. What do my charges pay for?

The charges we deduct from your policy pay for costs such as the following.

- ▶ Those we incur in selling new policies and top ups to existing policies, where advice has been given.
- ▶ Those we incur in administering policies.
- ▶ A share of the overheads of running our business.

Any profits or losses we make from these charges are included in the business profits and losses mentioned earlier and are included in the returns to with-profits policyholders.

8. Where is my money invested?

As the with-profits fund is designed as a long-term home for your money, we seek to generate the highest possible return subject to an appropriate level of risk. We do this by investing in a wide range of assets to spread the risk.

- ▶ We place an emphasis on assets which we expect, over time, to provide a return above the rate of inflation, including higher-risk investments such as quoted company shares and commercial property. Historically, these assets have had the best long-term growth prospects, but also carry a higher risk of fluctuations in value.
- ▶ We also invest in lower-risk investments such as interest-paying bonds and cash deposits. We expect these assets to provide more stable, albeit lower investment returns.

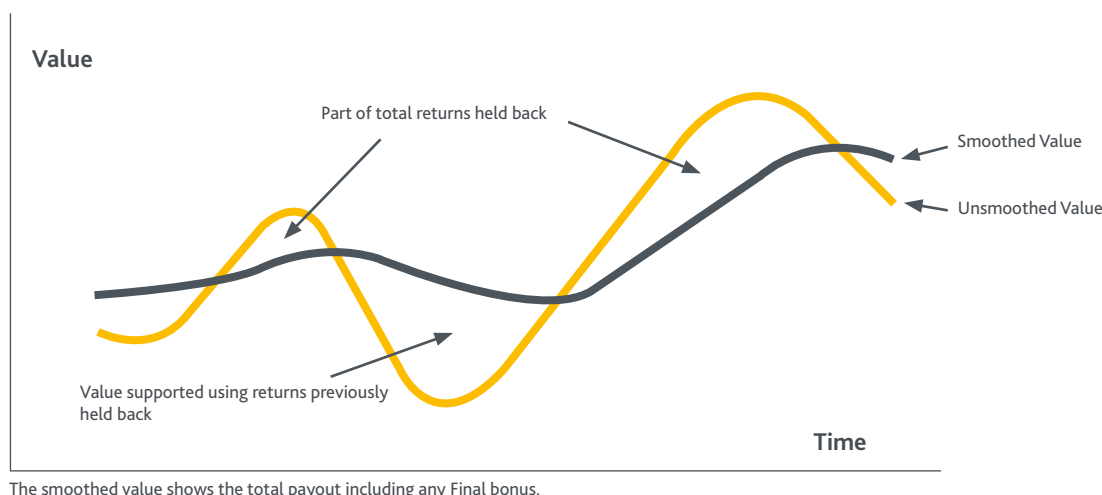
Section 9 explains how the performance of other parts of the Wesleyan Group of companies can also affect returns.

We rate our with-profits fund as a moderate risk fund and therefore our mix of higher-risk investments is carefully monitored. However, the financial strength of the with-profits fund and Wesleyan Assurance Society gives us greater freedom to invest in a way that should deliver greater returns over the longer term and the ability to smooth out some short-term volatility in returns (please see Question 10 for more on Wesleyan Assurance Society's financial strength).

As an actively managed fund we keep the mix between the higher- and lower-risk investments under review. The mix mainly depends on the overall strength of the Fund and the level of guarantees made to policyholders.

You can find current information on how the Fund is invested in the relevant fund factsheet, available from our website www.wesleyan.co.uk/savings-and-investments/fund-prices, or you can ask for one by contacting us. (See Question 14 for details of how to do this.)

Figure 1. Smoothing illustration – the diagram below shows how smoothing is applied to your investment



9. How could Wesleyan Assurance Society's overall profits affect payouts on policies?

Although investment performance has the greatest impact on overall return, profits (and losses) arising from other policies sold by us or from other aspects of our business, also impact on performance. This means that, whilst part of the return can be delivered by profits in other parts of the business, it can be affected by losses in those parts of the business as well.

Things that might put profits at risk include:

- ▶ the risks taken by the subsidiary companies of the Wesleyan group of companies in which the fund invests
- ▶ the risk of losses (or reduced profits) from non-profit business, such as income protection and annuities (policies paying income in retirement). This could arise if our income protection customers made more sickness claims than we expected, or our annuity customers lived longer than we expected.

We seek to manage these risks so that, in the normal course of events, we make a profit rather than a loss.

To manage the risks arising from subsidiary companies:

- ▶ the Board has to approve the amount that will be invested in each subsidiary company. This will be based on the risks involved compared with our expected return on investments
- ▶ approval will not be given unless the expected benefits are higher than those that are available from other, more readily traded investments
- ▶ limits are placed on investments in new ventures and the total value of assets held in subsidiaries will not normally be more than 6% of the invested assets of the with-profits fund, and
- ▶ the performance of each subsidiary company is regularly monitored to check that performance is satisfactory.

To manage the risk of protection claims being higher than we'd estimated when setting our premiums:

- ▶ we regularly review our charges, and
- ▶ we may pass on some of the risk under very large policies, or large groups of policies, to what is called a 'reinsurer'.

To manage the risk of paying annuities for longer than we currently estimate, we regularly review the premium rates we set and limit exposure to this type of business.

10. How do I benefit from Wesleyan Assurance Society's financial strength?

We aim to ensure that we have more money than we expect will be needed to pay out on all of our policies. This margin is not owned by any particular policyholders. We aim to manage it so that we can:

- ▶ meet the guarantees even if our investments fall in value
- ▶ Invest in higher-risk assets that we hope will allow us to pay higher bonuses over time
- ▶ smooth out larger rises and falls in our returns when we determine payouts, and
- ▶ in very extreme circumstances, provide support to the separate fund for policies sold by Medical Sickness Society before they were transferred to Wesleyan in 1997.

We see these benefits as the key components of what our with-profits fund is about – growth prospects over the long term with the added protection of smoothed payouts.

Our financial strength enables us to meet some costs directly from time to time, rather than pass them on to policyholders. However, we would only do this if our financial strength would remain strong enough afterwards.

These costs might include:

- ▶ some guarantee costs, such as a guarantee that the maturity payout from certain endowment policies will pay off a policyholder's mortgage
- ▶ large projects we undertake to develop our business strategy or modernise our infrastructure
- ▶ compensation paid to our policyholders, and
- ▶ the cost associated with the Mutual Benefits Scheme, which provides benefits for our policyholders, such as discounts on the purchase of insurance products.

We are a financially strong company and our aim is to remain financially strong in the future. We monitor this strength to ensure it doesn't fall below an acceptable level. If it were to fall, we would look at how to rebuild it. For example:

- ▶ we might start to keep back some of the profits we make, so as to re-build our strength, and
- ▶ we may have to limit our pace of growth to ensure that our overall guarantees don't build up too quickly.

11. What are the guaranteed events on my Policy and how would the guaranteed amount be calculated?

New policies do not have any guaranteed events but older policies may have certain guaranteed events included within the policy terms. These might include, for example, pay outs due to the death of the policyholder.

If your policy pays out on a guaranteed event, then we will pay the full value of the units in your fund based on the unit price at the date the units are cashed in. We will not apply any Market Value Reductions (MVR) (see Question 12) that are in place at the time.

Regular bonuses increase the value of units paid out on a guaranteed event. Because of this, we set regular bonuses prudently.

The guaranteed events on your policy depend on the type of policy that you have and when it was opened.

Please refer to your Policy or Plan Document, or contact us, for details of the guaranteed events on your policy.

12. What is a Market Value Reduction (MVR)?

If your policy pays out at any time other than a guaranteed event, we may apply a Market Value Reduction (MVR). This would only be considered if the unsmoothed value had fallen below the unit value (see figure 2 below for an illustration). We do not apply an MVR in all such circumstances, but would do so to ensure policyholders remaining in the fund are not adversely affected by us paying out significantly more than the smoothed value.

If we do apply an MVR, we will not pay any final bonus nor the full value of any regular bonuses that we had already added to your policy, and you could get back less than you paid in. The MVR would reduce the amount paid out down to the smoothed value. This ensures we are fair to all our policyholders.

As mentioned in the previous section, an MVR would not be applied to policies that had payments relating to guaranteed events.

13. What if I cash in my with-profits investment?

With-profits policies are designed for long-term investment. You may get back less than you paid in when you decide to cash in your Policy, particularly when underlying asset values are low.

You may choose to cash in part or all of your with-profits investment. For example, you may want to take money out of your policy, or you might want to transfer the funds to another investment company.

You may simply want to switch to a different investment fund with us.

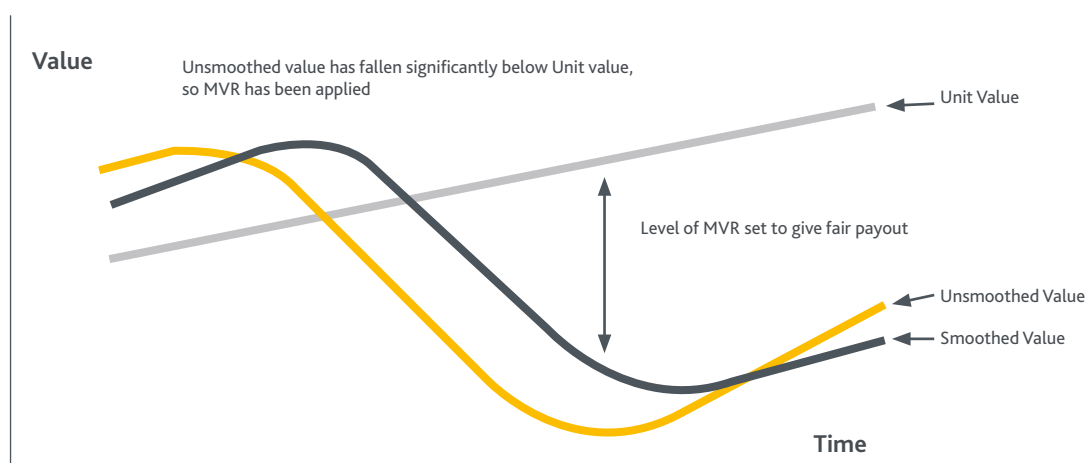
As well as Market Value Reductions (MVRs) (see Question 12), which are specific to a with-profits investment, there may be policy charges which apply when you cash in your units. For example, we may charge for switches between funds. You can find more details of the charges that apply to your policy in your Policy Document (the Terms and Conditions) or the Key Features Document for your Policy.

Here is a summary of what happens if you cash in part or all of your investment other than on a guaranteed event (see Question 11 for an explanation of Guaranteed Events):

Figure 3: with-profits value payable on a non-guaranteed event:

- ▶ The number of with-profits units you wish to cash in multiplied by the unit price at the date you cash them in
- plus
- ▶ any final bonus amount, worked out at the same date
- less
- ▶ any MVR that applies at that date
- less
- ▶ any policy charges that apply.

Figure 2. Market Value Reduction illustration – the diagram below shows how an MVR may be applied



14. Where can I find out more?

If you have any further questions about the information we have covered in this document, or if you would like further information about our with-profits fund, please contact your Specialist Financial Adviser from Wesleyan Financial Services. To book an appointment, please call 0800 058 2965.

Alternatively you can contact our Customer Operations team on 0345 351 2352 or email InvestmentsServicing@wesleyan.co.uk.

Our lines are open from 9am to 5pm, Monday to Friday. Calls may be recorded to help us provide, monitor and improve our services to you.

You can also write to us at:

Investment Servicing Team
Wesleyan Assurance Society
Colmore Circus
Birmingham B4 6AR

Each year we publish an annual report which explains how we have acted to manage our with-profits fund during the year. We also produce a more detailed guide about how we run the Fund. This is called 'Principles and Practices of Financial Management (Wesleyan Open Fund)'. You can get a copy of either of these by calling 0800 058 2965, or you can visit our website www.wesleyan.co.uk/savings-and-investments/with-profits-fund

We are all about you.

Since we were founded over 180 years ago, we have cherished our mutual status. It's an integral part of who we are and with no shareholders, our focus is solely on members and customers. We work to benefit those who invest in our business. Not only today, but also in the future.

It's why 'we are all about you'.

A guide to the many ways in which the Wesleyan Group of companies can help you to plan, prioritise and secure your financial future.

For you



Savings & Investments



Mortgages



Retirement Planning



Insurance



Life & Income Protection

For your business



Finance & Funding



Personal Protection



Equipment Insurance



Premises Insurance

For more information about the Wesleyan Group of companies, visit wesleyan.co.uk/ourcompanies

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