

Guide to how we manage our unit-linked funds

This guide explains briefly how Reliance Mutual manages its unit-linked funds. It sets out the standards and practices that we use to manage the funds.

1 Calculating Unit Prices

Our overall aim when calculating unit prices is to treat our customers fairly. This includes:

- ensuring that a fair value of the underlying investments is used in unit pricing;
- recognising the correct fund charges, expenses and taxation;
- applying a fair and understandable pricing method.

1.1 Fund valuations

The internal funds are valued on a selling price basis, as apart from short term fluctuations and step increases when blocks of business are acquired, all funds are declining. We do not foresee this position changing.

1.1.1 Cash

Money held in current, deposit and other cash accounts is valued at its face value.

1.1.2 Property

Real property is valued at least annually by qualified valuers on an open market sale value basis. A deduction is made for the estimated costs of sale.

1.1.3 Other Investments

Other investments are valued at market selling price less the expense of sale.

1.2 Charges and Expenses

The charges and expenses detailed in this document are only those that are applied to the investment fund; there may be other policy specific charges that apply to your policy. These will be described in your policy document.

1.2.1 Annual Management Charge (AMC)

In calculating the unit price a daily allowance for the AMC is deducted from the fund. Please see the appendix for details of the AMC for each series of units.

1.2.2 Initial Charge (Bid/Offer Spread)

Some funds have an initial charge applied to each premium paid into the fund. This is sometimes known as a bid/offer spread. The initial charge is applied to the selling price to arrive at the buying price of the fund. For funds that have no initial charge both the buying and selling prices are the same. The appendix gives details of the initial charge for each series of units.

1.2.3 Other expenses

Various other expenses may be incurred by a fund if it invests in certain assets. The types of expenses may include:

- Custody charges
- Transaction fees
- Trustee fees
- Bank charges
- Interest charges
- Audit fees
- Stamp duty reserve tax
- Broker commission
- Expenses relating to property investment

1.3 Investing in other internally managed unit-linked funds or unit trusts

Some of our unit-linked funds hold units in other internally managed unit-linked funds or unit trusts. This allows a fund to gain exposure to a specific type of investment without directly holding the underlying assets.

1.3.1 Investing in other internally managed unit-linked funds

When investing in other internal managed unit-linked funds, units are bought and sold at the selling price.

Where a fund holds units in another internal fund we ensure that there is no duplication of AMC.

1.3.2 Investing in the internally managed British Life Unit Trust

Where a fund holds units in the British Life Unit Trust (which is managed by a subsidiary of the Society), the annual management charge on that part of the fund represented by such holdings is reduced by 0.75%.

Where a linked fund purchases units in the British Life Unit Trust, the fund purchases and sells units at the selling price.

1.4 Timing

All funds are priced daily at 10am.

2 Error Correction

All pricing and dealing errors are recorded and corrected as soon as reasonably practical. Payment of compensation is not dependent on whether or not an affected unitholder complains.

Compensation is normally paid in accordance with the following criteria:

- Error affects the unit price by less than 0.1% - compensation is not normally paid.
- Error affects the unit price between 0.1% and 0.5% - compensation may be considered.
- Error affects the unit price by more than 0.5% – compensation would normally be paid.

Compensation is not normally paid unless the amount due is over £10.

3 Complaints

We will deal with any complaints in line with the FSA rules and our own internal procedures. We will acknowledge a complaint within 5 working days and advise a likely timescale for investigation and response. For further details please see the Complaints Procedure page within the members section of our website.

4 Taxation

In this section we describe the way in which we allow for tax when pricing the funds.

We are charged tax on investment income and capital gains on the investments in most of our life assurance funds, but not on our pension funds and certain tax-exempt life funds.

We receive tax relief on expenses that are attributable to a fund that pays tax.

We do not receive tax relief on capital losses, but losses can be carried forward and offset against future gains.

Our approach treats each linked fund as if it were a stand-alone mutual insurance company.

4.1 Investment Income Taxation

Investment income is taxed at the policyholder tax rate (currently 20%). Dividends received from UK companies and the income element of UK dividends from Unit Trusts and OEICs are not subject to tax within the fund as the underlying companies are taxed at source.

4.2 Expense Relief

Tax relief for management expenses incurred by a fund subject to tax is given at the policyholder tax rate.

4.3 Capital Gains Tax

Capital Gains Tax (CGT) is payable when an asset is sold (or deemed to be sold) at a price higher than it was purchased, subject to indexation relief. A capital loss occurs when an asset is sold (or deemed to be sold) at a lower price than it was purchased. Capital losses can be offset against gains arising in the same year, and net losses carried forward.

CGT is deducted at the time of sale when assets are sold.

Some funds contain assets subject to annual deemed disposals (investments in most Unit Trusts and OEICs). Each asset is deemed to be sold and repurchased for the same price at 31 December each year. Gains and losses are spread forward over a period of seven years, with the provision to carry deemed losses back by up to two years. A tax provision is held in respect of the tax that will be due in future years, using the full rate of tax. The tax due each year is deducted from the funds annually on 31 January.

4.4 Tax Exempt funds

With the exception of any irrecoverable taxation at source of investment income, tax exempt funds do not pay any further tax.

4.5 Pension funds

With the exception of any irrecoverable taxation at source of investment income, pension funds do not pay any further tax.

5 Discretion in managing unit linked funds

This section outlines the scope and limits to Reliance Mutual's discretion in managing the funds. Our aim when exercising discretion is to ensure that we treat all policyholders fairly.

5.1 Charges and Expenses

If permitted we may increase or decrease the charges that apply to a fund. This will only occur if permitted by the policy documents and will only take place in circumstances determined by the Society's actuary who will fairly take account of the interests of all policyholders.

5.2 Transaction delays

We reserve the right to defer the switching of property fund units into another fund, or redemptions from property funds, for a period up to six months if the value exceeds £25,000.

5.3 Closing or merging of funds

We may decide at any time to close a fund, to merge one or more funds or to divide a fund into one or more linked funds subject to a replacement fund having similar investment objectives as determined by the Board of the Society or in any case if the original fund is below £2m in value.

5.4 Unit Price rounding

When calculating unit prices, prices are rounded to the nearer 1 decimal place (0.1p). Creations and cancellations of units within a fund occur at an unrounded price.

5.5 Asset allocation and Strategy

The Investment Manager has responsibility for managing the fund on a day to day basis in line with the fund mandates. The Investment Manager takes account of short and long term expectations in decisions relating to stock, sector and asset selection.

5.6 Criteria for moving funds between bid and offer basis

The internal funds are valued on a selling price basis, as apart from short term fluctuations and step increases when blocks of business are acquired, all funds are declining. We do not foresee this position changing.

5.7 Frequency and time of pricing

See section 1.4

5.8 Response to Adverse Events

If a significant adverse event results in us not being able to access our buildings or systems or if market values for a significant proportion of assets are unavailable, we may suspend the unit price and/or defer processing transactions for up to 28 days.

Such action would only be carried out where it protects the interests of all customers in the fund.

5.9 Taxation

See section 4 to see how the Society applies discretion to the taxation of funds.

Appendix – Fund Charges

Fund Name	Type	Series	Annual Man Charge	Initial Charge
British Life Unit Trust	Unit Trust		1.000	5.720
Life Tax Exempt Deposit	Accumulation	60	0.500	0.000
Lion Equity	Distribution	70	0.900	0.000
Life Deposit	Accumulation	1A	0.750	6.000
Life Deposit	Accumulation	1	0.750	5.000
Life Deposit	Accumulation	3	1.000	5.000
Life Deposit	Accumulation	6	0.500	5.000
Life Deposit	Capital	1	5.000	5.000
Life Deposit	Homefund	1	0.750	5.000
Life Equity	Accumulation	70	0.900	0.000
Life Equity	Accumulation	1	0.750	5.000
Life Equity	Capital	1	5.000	5.000
Life Fixed interest	Accumulation	2E	1.500	5.900
Life Fixed interest	Accumulation	6	0.500	5.000
Assured Lifestyle	Accumulation	1	0.750	5.000
Life Managed	Accumulation	1A	0.750	6.000
Life Managed	Accumulation	1B	0.750	4.762
Life Managed	Accumulation	2E	1.500	5.900
Life Managed	Accumulation	3E	1.000	5.900
Life Managed	Accumulation	5C	1.300	5.350
Life Managed	Accumulation	1	0.750	5.000
Life Managed	Accumulation	3	1.000	5.000
Life Managed	Accumulation	5	1.300	0.000
Life Managed	Accumulation	7	0.900	5.000
Life Managed	Capital	1	5.000	5.000
Life Tax Exempt Managed	Accumulation	2D	1.500	5.600
Life Tax Exempt Managed	Accumulation	30	1.000	0.000
Life Tax Exempt Managed	Accumulation	60	0.500	0.000
Life Property	Accumulation	2E	1.500	5.900
Life Property	Accumulation	70	0.900	0.000
Life Property	Accumulation	1	0.750	5.000
Life Property	Accumulation	3	1.000	5.000
Life Property	Capital	1	5.000	5.000
Life Property Distribution	Distribution	3F	1.000	3.800
Life Property Distribution	Distribution	8F	2.000	3.800
Life With Profit	Original		1.500	5.900
Life With Profit	Guaranteed Bonus		1.500	5.900
Life With Profit	Guaranteed		1.500	5.900
Life With Profit	Non Guaranteed Bonus		1.500	5.900
Pensions Deposit	Accumulation	1A	0.750	6.000
Pensions Deposit	Accumulation	1	0.750	5.000
Pensions Deposit	Accumulation	2	1.500	5.000
Pensions Deposit	Accumulation	3	1.000	5.000
Pensions Deposit	Capital	1	4.250	5.000
Pensions Deposit	Capital	2	4.750	5.000
Pensions Deposit	Capital	3	6.750	5.000
Pensions Deposit	Capital	4	3.000	5.000

Fund Name	Type	Series	Annual Man Charge	Initial Charge
Pensions Equity	Accumulation	2E	1.500	5.900
Pensions Equity	Accumulation	1	0.750	5.000
Pensions Equity	Accumulation	2	1.500	5.000
Pensions Equity	Accumulation	3	1.000	5.000
Pensions Equity	Accumulation	5	1.300	0.000
Pensions Equity	Capital	1	4.250	5.000
Pensions Equity	Capital	2	4.750	5.000
Pensions Equity	Capital	3	6.750	5.000
Pens Fixed Interest	Accumulation	1A	0.750	6.000
Pens Fixed Interest	Accumulation	1	0.750	5.000
Pens Fixed Interest	Accumulation	2	1.500	5.000
Pens Fixed Interest	Accumulation	3	1.000	5.000
Pens Fixed Interest	Capital	1	4.250	5.000
Pens Fixed Interest	Capital	2	4.750	5.000
Pens Fixed Interest	Capital	3	6.750	5.000
Pensions Indexed Gilt	Accumulation	1	0.750	5.000
Pensions Indexed Gilt	Accumulation	2	1.500	5.000
Pensions Indexed Gilt	Accumulation	3	1.000	5.000
Pensions Indexed Gilt	Capital	1	4.250	5.000
Pensions Indexed Gilt	Capital	2	4.750	5.000
Pensions Indexed Gilt	Capital	3	6.750	5.000
Pensions Indexed Gilt	Capital	5	5.000	5.000
Pensions Managed	Accumulation	1A	0.750	6.000
Pensions Managed	Accumulation	1B	0.750	4.762
Pensions Managed	Accumulation	2E	1.500	5.900
Pensions Managed	Accumulation	1	0.750	5.000
Pensions Managed	Accumulation	2	1.500	5.000
Pensions Managed	Accumulation	3	1.000	5.000
Pensions Managed	Accumulation	4	0.400	5.000
Pensions Managed	Accumulation	5	1.300	0.000
Pensions Managed	Capital	1	4.250	5.000
Pensions Managed	Capital	2	4.750	5.000
Pensions Managed	Capital	3	6.750	5.000
Pensions Managed	Capital	6	6.000	5.000
Pensions Property	Accumulation	2E	1.500	5.900
Pensions Property	Accumulation	5	1.300	0.000
Pensions Property Distribution	Distribution	8F	0.500	3.800
Pensions With Profit	Original		1.500	5.900
Pensions With Profit	Non Guaranteed Bonus		1.500	5.900
Pensions With Profit	Guaranteed		1.500	5.900
Pensions With Profit	Guaranteed Bonus		1.500	5.900
Life Property	Accumulation	1st Issue	0.375	0.000
Life Trust Managed	Accumulation	1A	0.750	6.000
Life Trust Managed	Accumulation	1	0.750	5.000
Life Trust Managed	Accumulation	3	1.000	5.000
Life Trust Managed	Capital	1	5.000	5.000