How we manage your investment
A guide to unit-linked funds
About this guide 03
Unit-linked funds 05
Valuation of funds 06
Unit pricing 07
Buying and selling units 09
Expenses and charges 10
Taxation of unit-linked funds 11
Closing or merging funds 12
Contacting us 13
About this guide

The vast majority of Zurich plans use unit-linked funds.

We recognise the importance of building and maintaining the trust of our customers. One way of doing this is to provide clear, understandable information about how we handle customers’ money. This guide is part of our commitment to this aim.

The guide is designed to explain how unit-linked funds work. You will find it useful if you are considering, or already have, an investment in unit-linked funds through a Zurich plan.

After reading it, you should have a good understanding of how we manage your investment. You will also know more about the factors that influence our decisions and actions.

We have overarching principles which we apply in the management of unit-linked business. How we apply these in practice will depend on circumstances. The guide doesn’t include detailed information on any plans or funds. You can find this in other specific documents – such as key features, terms and conditions, fund guides and fund factsheets – or on our websites.

One of our overarching principles is to always manage unit-linked funds to be consistent with plan terms and conditions. If there is a conflict between the information in this guide and the documentation for a specific plan, the plan documentation will take precedence.

Where you see a text box like this, it will indicate where you will find the fuller detail and explanation that you may want before making a decision about your investment.
The Asset and Liability Management Investment Committee is responsible for overseeing the management of investments, including:

- The appointment of fund managers.
- The development of investment policy for assets backing unit-linked funds.
- The implementation of investment policy.

The responsibilities of the Chief Financial Officer, who chairs the Unit Pricing Committee, include:

- Considering unit pricing standards, methods and calculations.
- Managing any risks in the pricing process.
- Controlling the unit pricing process.
- Reviewing the areas in which discretion is used.

Who in Zurich is responsible for the management of unit-linked funds?

Ultimately, the Board of Zurich Assurance Ltd is accountable for the management of unit-linked business. The Asset and Liability Management Investment Committee is responsible for overseeing the management of investments, including:

- The appointment of fund managers.
- The development of investment policy for assets backing unit-linked funds.
- The implementation of investment policy.

The responsibilities of the Chief Financial Officer, who chairs the Unit Pricing Committee, include:

- Considering unit pricing standards, methods and calculations.
- Managing any risks in the pricing process.
- Controlling the unit pricing process.
- Reviewing the areas in which discretion is used.

What is discretion?

The effective management of unit-linked funds depends on the use of expert judgement. We refer to this as ‘discretion’, and it is used only within strictly defined circumstances and limits. In this guide we give some examples of when and how we may use discretion.

The fair treatment of customers

Another overarching principle is that we will take all reasonable steps to ensure that all customers are treated fairly. Unit-linked funds usually contain the money of lots of customers, and we need to ensure that we take the interests of them all into account in our management of the funds. For example, there can be unusual circumstances in which we need to consider the impact that individual transactions, or a series of transactions, could have on the fund as a whole – and all its customers – before completing them.

Usually, if there is ever a conflict between the interests of customers entering or leaving a fund, and those staying in it, the interests of customers keeping their money in the fund will take precedence.

In line with our principles, our aim is to ensure that all prices, in all funds, are calculated fairly.
Unit-linked funds

What is a unit-linked fund?
Unit-linked funds are funds of assets owned by Zurich. They are divided into units, which are used to calculate plan benefits, in line with terms and conditions. Customers buy units when they choose to invest in a fund, and sell them when they withdraw some or all of their money from the fund.

The funds can invest in assets such as cash, equities, fixed interest securities, property and other unit linked funds. The precise mix of asset types is governed by the fund’s stated objectives.

Pooled investments, created by pooling the assets which back the benefits of groups of investors, enable those investors to participate in the performance of a wider range of assets than would otherwise be possible. In this way they can spread their risk and benefit from investment management experience.

What is Zurich’s role?
Zurich aims to ensure that the range of funds available through our plans meets the needs and expectations of customers.

Our role is to ensure that the funds in which you invest are managed and administered in accordance with their stated objectives.

Zurich is also responsible for all day to day customer service matters. This includes responding to customer enquiries, and sending customers regular personalised statements of individual plan values.

What does a fund manager do?
We work with a number of fund managers to provide a wide choice of investment opportunities for our customers.

Working within the parameters set out in the fund’s objectives, the role of the fund manager is to find the best opportunities for investing the fund to achieve those objectives.

A word about risk
The assets that unit-linked funds invest in carry different levels of risk. Generally, the greater the potential for higher returns the greater the risk of your investment reducing in value.

When considering whether to invest in a particular fund, it’s important that you are fully aware of the objectives of the fund, the types of asset it invests in, and the investment approach the fund manager will take as a result. You should discuss this with your financial adviser.

You will find information on fund objectives and the mix of assets the fund manager has chosen for the fund in the fund factsheet.

The fund guide will help you understand if a fund fits with your own attitude to risk and investment objectives.
How are unit-linked funds valued?

Fund valuations are based on an assessment of the market value of the assets in which the fund is investing.

For equities and most fixed interest securities, the price quoted on the relevant recognised market, such as the London Stock Exchange, is normally used. The value of property assets – land or buildings – is assessed at least yearly by an independent external valuer. The valuer will then update it at least once a month, using a commercial property price index as a guide.

We add any income – for example interest on cash deposits, or rent from property – and then make any necessary charges and deduct any relevant expenses and tax to get the fund value.

The effective management of unit-linked funds depends on the use of expert judgement.
How does Zurich work out unit prices?
The unit price is the total value of the fund, divided by the number of units in the fund. In line with our principles, our aim is to ensure that all prices, in all funds, are calculated fairly.

For some funds, only one price is quoted and units are bought and sold at the same price.

The majority of funds, however, have two unit prices: the price you pay when you invest and buy units in the fund (the buying, or ‘offer’, price), and the price you get from us when you take money out of the fund (the selling, or ‘bid’, price). The offer price is higher than the bid price. The difference between the two is known as the ‘bid/offer spread’. This is an example of the ‘fund charges’ described on page 10.

In calculating prices we look at a number of things, including:

- Whether the fund is getting bigger – with more units being bought than sold – or smaller, with investors withdrawing money at a faster rate than it is being added to the fund.
- The need to maintain fairness between customers entering, leaving or staying in a fund, and Zurich itself.

When a fund is expanding, it has to buy more assets, and create more units. In these circumstances, we allow for the cost of buying new assets for the fund. When the opposite is true, the fund has to sell some of its assets, and cancel units. We then allow for the price the fund can get for selling its assets.

To ensure that we are using the correct and fairest basis, we regularly review trends in the flow of money into and out of the fund.
What price will I get when I buy or sell units?
Transactions into or out of a fund will be priced on either a ‘forward’ or ‘historic’ basis. Forward pricing uses the next available price at the time of the transaction. Historic pricing uses the previous calculated price.

How does Zurich round unit prices?
The bid and offer prices are rounded down to 3 decimal places (or 0.1p), as allowed for under the plan terms and conditions.

How can I find out what current unit prices are?
You can find up to date unit prices for most funds on our websites at www.zurich.co.uk/life and www.sterling-assurance.co.uk. You can also call customer services on 0370 514 3624 for Zurich plans, or 0370 909 6010 for Sterling plans.

What if Zurich makes a mistake in its unit prices?
Through rigorous systems and controls, we aim to ensure that all our unit prices are accurate. However, the sheer volume and complexity of unit price calculations is such that, very rarely, errors can happen. Our aim is to make sure that we restore any customers affected by a pricing error to the position they would have been in if the error hadn’t happened.

If we do discover that an error has occurred, we will correct it as soon as reasonably practical, and assess its impact on unit prices. If this assessment finds that the error is ‘significant’, we will compensate customers, and the fund, as necessary.

In line with standard practice in our industry, we will always consider an error of 0.5% or more in unit prices to be significant.

What if Zurich is unable to follow its normal unit pricing process?
In exceptional circumstances and in order to safeguard your investment, we may need to deviate from our normal standards for unit pricing.

Exceptional circumstances could include significant stock market incidents such as unplanned stock market closures or major computer system or infrastructure failures either within Zurich or with external suppliers that Zurich’s unit pricing is dependent on.

Any deviation from normal standards will only apply for as long as the exceptional circumstance exists. During this time it is our aim to price our funds appropriately, whilst treating all customers fairly. Examples of the actions we may take in such circumstances include:

- Basing prices on previously agreed valuations which may be adjusted for stock market movements
- Temporarily suspending trading in, or pricing of, a fund
- Temporarily allowing a fund to diverge from its usual investment strategy e.g. when property assets are not easily tradeable

For most plans, we also send you regular statements showing the total value of your investment.
Buying and selling units

How quickly will Zurich act when I want to buy or sell units?
In normal circumstances we will buy or sell units in your chosen fund as soon as reasonably practicable, when we have received your full valid instructions to do so. If we receive these by our cut-off time we aim to process them that day. If we receive them after that time, we aim to process them on the next business day. The address to send any written instructions to is on page 11 of this guide.

Why might Zurich delay acting on my instructions to buy or sell units?
In certain circumstances we may use our discretion to delay acting on your instructions to sell units in a fund. We will only do this to maintain fairness to all investors, and after an assessment of market conditions and trends.

Funds that invest in property provide a good example of this. In certain market conditions, investors may become more cautious and it may take longer than usual to sell the fund’s assets – such as offices, factories or retail premises – for a value that would fairly represent the interests of the remaining investors in the fund.

There can also be situations in which we cannot buy units when you ask us to. This will generally be because of events outside our direct control, which mean that trading in particular stocks or assets is not possible. For example, shares in individual companies may be suspended because of unusual trading patterns, or entire stock markets may close temporarily if conditions are extreme. This happened in some Asian markets in January 2008, following sudden and steep falls in share values.

Can I move money from one fund to another?
With most of our plans you can switch all or some of your existing investment to a different fund (or funds), or change the funds into which your future payments go.

This can be a useful facility. It’s very possible that your investment priorities will change over time – from capital growth to income, for example. Switching enables you to make sure that the funds you invest in reflect any changes in your objectives, or indeed your attitude to risk.

You should discuss these with your financial adviser if you are thinking about switching funds.

Even if your investment goals don’t change, it’s worth bearing in mind that the performance of different funds can rise and fall at different rates and times. These movements tend to be driven largely by the cyclical nature of markets and economies around the world.

Market Timing and Fund Switching.
Zurich is committed to treating its customers fairly and complying with all applicable regulations where Zurich believes market timing and/or high frequency trading is taking place.
What expenses does Zurich have in managing my investment?
We need to cover all the expenses we incur in managing your plan, and the fund.

Plan expenses are largely administrative. They include – but are not restricted to – such things as receiving and distributing money, dealing with enquiries and correspondence, handling claims and paying commissions to financial advisers.

Fund expenses include – but are not restricted to – buying and selling costs, investment management fees and property expenses. Any expenses incurred by fund managers in managing external fund holdings are reflected in the unit prices.

How does Zurich take charges from my investment?
We cover our expenses and profit through charges, in accordance with terms and conditions. These charges are not the same for all the plans we sell, or have sold in the past. We may take charges from the plan, or from the fund itself:

**Plan charges**
- We may take a charge from the money you invest. This will reduce the amount available to buy units.
- We may cancel some units every month. This will reduce the number of units you own.

**Fund charges**
- We may take an annual charge, as a percentage of the fund value. This is factored into unit price calculations, which effectively means that we take a small part of the charge each day. This will reduce the value of units you own.
- We may take charges directly from the fund. Again, this is accounted for in unit pricing, and will reduce the value of units you own.
- A ‘bid/offer spread’ may apply as explained on page 7.

Could Zurich change the charges in the future?
It isn’t possible to predict all the circumstances which could lead to an increase, or decrease, in charges. However, factors which could lead to a change include:
- Changes to the administrative or legal requirements under which we have to operate.
- Changes in regulations that apply to the provision of financial advice.
- Changes in taxation (see ‘Taxation of unit-linked funds’).
- Increases in the charges made to us by external fund managers.

The charges that apply to your particular investment are explained in your plan’s key features, and terms and conditions.

If plan terms and conditions provide for it, we may use discretion to adjust the charges during the lifetime of your plan.

Expenses and charges
Taxation of unit-linked funds

How are unit-linked funds taxed?
Life insurance companies are subject to tax on the taxable income they receive, and the taxable capital gains they make. We therefore need to make an allowance for this taxation within the pricing of unit-linked funds. Tax is charged to each fund on that fund’s own income and gains. The tax allocated to a fund is typically that which the fund would bear as a standalone entity. Tax assets may be recognised in respect of capital losses where it is appropriate to do so.

For UK income and gains, tax is charged at the ‘policyholder rate’, which is set by HMRC and is subject to change. The tax rates for overseas income and gains are set by taxation agreements between the UK and the countries in which the funds invest.

Any additional tax on profits is paid by the company.

In allowing for tax when valuing funds, we use estimates of likely liabilities because the actual tax position may not be known for some time.

Income
Examples of investment income include dividends from funds, interest from cash deposits and rent from property owned by the fund. Any tax due on income is paid by the fund, and we account for it in unit prices.

The position is different for funds invested in through a pension. Income on these funds is not subject to UK tax.

Capital gains
To make sure that we treat all customers fairly, we make an allowance in our unit pricing for potential tax on assets that have not yet been sold. This means that investors who stay in the fund don’t end up paying all tax due on gains made by investors who sell their units.

We calculate the actual and potential tax liability of the fund each time we calculate unit prices. We then adjust unit prices up or down, depending on whether the amount of tax the fund has to pay is lower or higher than we had allowed for.

Again, funds invested in through a pension are treated differently: gains are not subject to UK tax.
Closing or merging funds

There can be circumstances in which it is in the interests of investors, and us, for us to close a fund, or merge it with one or more other funds.

This is another area in which we apply discretion. Typically, the main reasons for closing or merging funds are:

- We introduce new funds that may better meet the objectives of customers.
- As our range of funds develops, we find that different individual funds have the same, or very similar, investment objectives and policies.
- The fund manager is no longer able to provide the necessary services, or provide them on a basis that is commercially attractive.
- The fund isn’t big enough to support the costs of management and administration, without a potentially negative effect on returns for investors.
- The performance of the fund is consistently poor, over a sustained period, and we don’t believe there is a prospect of recovery.

In the period before we close or merge a fund, when one or more of the factors described above may be evident, we may refuse to accept new investment into the fund.

We may however continue to accept ongoing investments into the fund through existing plans.

What happens to my money if Zurich closes or merges a fund?

When we are planning to close a fund, we will write to you in advance to let you know. We will automatically switch your investment to a ‘default’ fund. Where there is no default fund specified in your terms and conditions or where the previously stated default fund is no longer appropriate or available, we will switch your holding to another fund which most closely matches the closing fund based on a number of fund specifics, including the ABI sector, fund objectives and charges.

You will also have the option to move your money into a fund other than the default one. We will give you enough notice to consider what you want to do, and to take advice if you need to.

We will notify you if we propose merging any funds in which your money is invested. We will switch your units into the merged fund, at their selling price, unless you choose to switch to another fund.
If you have any questions at any time, you can contact us in the following ways:

**If you have a Zurich plan:**

- **By telephone on**
  01793 514514 or 0370 514 3624
- **In writing to**
  Zurich Assurance Ltd
  Tricentre One
  New Bridge Square
  Swindon SN1 1HN

**If you have a Sterling plan:**

- **By telephone on**
  0370 909 6010
- **By e-mail @**
  info@sterling-assurance.co.uk
- **In writing to**
  Sterling Centre
  PO Box 461
  Bishops Cleeve
  Cheltenham GL52 8ZN

Please note that we cannot give you any financial advice. If you need advice, please talk to your financial adviser.

**How do I make a complaint?**

If you ever need to complain, please contact us at the relevant address below. If you’re not satisfied with our response, you can complain to the Financial Ombudsman at:

The Financial Ombudsman Service
Exchange Tower
London
E14 9SR

Complaining to the Ombudsman won’t affect your legal rights.