

OLD MUTUAL WEALTH'S GUIDE TO INVESTMENT IN OUR UNIT-LINKED FUNDS

FOR FINANCIAL ADVISERS ONLY

HOW WE PRICE OUR UNIT-LINKED FUNDS

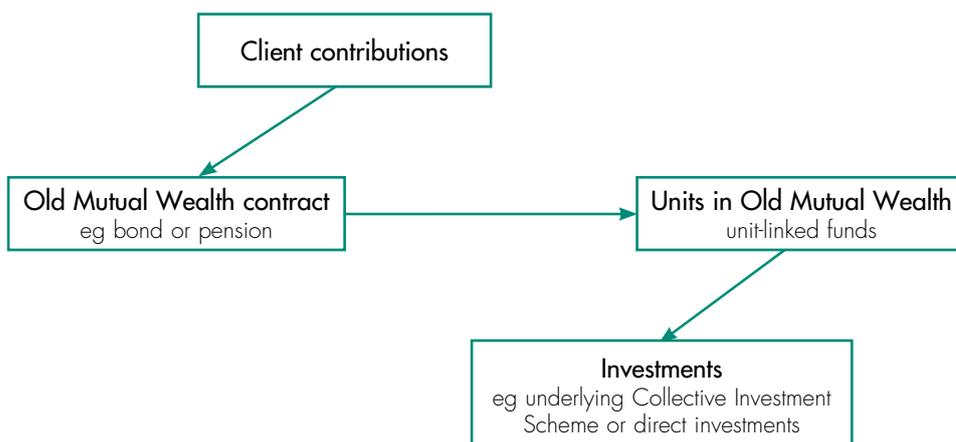
The aim of this guide is to explain how unit prices are calculated for the funds offered by Old Mutual Wealth Life Assurance Limited (OMWLA) and our current approach to managing them.

A full list of OMWLA funds can be found on our website and is available on request. The relevant Old Mutual Wealth policy or plan Terms and Conditions, issued when you purchased your contract from Old Mutual Wealth, should be regarded as the definitive source of information if there is any inconsistency between this document and the Terms and Conditions. Please note that this leaflet does not cater for any investments or products available through our platform. Please refer to our separate literature or our website www.oldmutualwealth.co.uk for more information.

UNIT-LINKED FUNDS

Unit-linked funds are offered by life assurance companies as a way of making a range of investment opportunities available to their customers within an insurance product, including pension contracts.

Old Mutual Wealth's unit-linked funds invest on behalf of clients in a wide range of underlying Collective Investment Schemes (CIS), such as Unit Trusts¹ or open-ended investment companies (OEICs)². The performance of a product you buy from Old Mutual Wealth is determined by the performance of the funds you select. You are not investing directly into the underlying CIS³ (see diagram below).



¹ **Unit Trust** – private individuals pool their contributions with those of others, which combine to form a large fund that invests in a spread of different assets to minimise the risk of loss. Also known as collective/pooled investments or investment funds.

² **OEIC** – open-ended investment companies. These are very similar to unit trusts, but are constituted as companies rather than trusts. The principal difference is that there is usually a single price.

³ Within the unit-linked fund range, there is a small assortment of funds that invest directly into stocks, shares and bonds. Details of these are available on request.

UNIT-LINKED FUNDS (continued)

Each fund in our range is made up of units, the value of which is calculated by the process outlined below. Old Mutual Wealth calculates a series of prices for its unit-linked fund range, which are then applied to the relevant products as set out in the Terms and Conditions.

Due to Old Mutual Wealth's scale and consequential buying power, we can negotiate reduced initial charges (preferential dealing terms) with CIS providers⁴. The outcome of any reduced charges is reflected within our unit-linked fund prices, benefiting our clients.

In addition, we use our scale to negotiate a rebate of the underlying manager's Annual Management Charge (AMC)⁵, some of which may be passed back into the Old Mutual Wealth funds, further benefiting our clients.

The price of units in an Old Mutual Wealth unit-linked fund will not mirror the price of the underlying CIS. Old Mutual Wealth unit-linked funds will commonly be launched at £1 per unit, irrespective of the price of the underlying CIS at that point.

Once launched, the Old Mutual Wealth unit-linked fund will perform broadly in line with the underlying CIS in which it invests. If the value of the underlying CIS rises or falls, so will the price of Old Mutual Wealth's unit-linked funds. The performances of Old Mutual Wealth's unit-linked funds do not correlate exactly to those of the underlying CIS for a number of reasons:

- For non-pension funds, allowances for taxation are applicable – see [Taxation allowances](#) later in this guide for more detail.
- Old Mutual Wealth product or plan charges that are taken within the fund pricing.
- The effect of AMC rebates from the underlying CIS managers.
- The Old Mutual Wealth investment process gives rise to a one day lag in performance.
- Changes in the pricing basis (see [Factors involved in the pricing process](#)).

HOW OLD MUTUAL WEALTH CALCULATES UNIT-LINKED FUND PRICES

This document covers our single manager and MultiManager unit-linked funds (the full list of OMWLA funds can be found on our website and is available on request). The unit pricing process for each of these is described below.

SINGLE MANAGER UNIT-LINKED FUNDS

We calculate Old Mutual Wealth single manager unit-linked fund prices each working day based on the following process:

- **Stage 1**
The manager of the underlying CIS calculates the purchase price for units in the fund at its valuation point⁶.
- **Stage 2**
Using the fund manager price, Old Mutual Wealth calculates the value of its holding in the underlying CIS.
- **Stage 3**
This value is then adjusted to take account of our tax position with regard to investment income and chargeable gains in our fund (only non-pension products). In addition we make an allowance for any dividends or rebates that are due to the fund.
- **Stage 4**
The sum of all these calculations gives us the 'internal fund value'.
- **Stage 5**
The internal fund value is divided by the number of units which have been allocated to all Old Mutual Wealth clients who have holdings in the fund to arrive at the price of individual units. Old Mutual Wealth's AMC⁷ is deducted at this stage if applicable (specific product Terms and Conditions will state if the Old Mutual Wealth AMC is taken within the fund pricing or by deducting units from the client policy).
- **Stage 6**
For 'single priced' OMWLA unit-linked fund products (see product Terms and Conditions for more details) the price created in Stage 5 will be the quoted price, and price applied to all transactions in the unit-linked fund.

For 'initial priced' OMWLA unit-linked fund products (see Terms and Conditions for more details), the price created in stage 5 is set as the bid price and will be increased by 5% to derive an offer price (see [Old Mutual Wealth fund prices](#) on next page).

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HOW OLD MUTUAL WEALTH CALCULATES UNIT-LINKED FUND PRICES (continued)

- 4 **CIS provider** – the firm which offers the Collective Investment Scheme.
- 5 **AMC (Annual Management Charge)** – a charge made by a CIS provider which covers the cost of investment management and administration– this is reflected in the daily price of underlying CIS.
- 6 **Valuation point** – the name given to the time of day that unit trusts or OEIC's are valued and then priced.
- 7 **Old Mutual Wealth AMC** – a product charge applied by Old Mutual Wealth. This may be deducted daily within the fund price by multiplying the current fund value by the AMC% rate and dividing by the number of days in the year, or by regular unit deduction from a client policy.

OLD MUTUAL WEALTH FUND PRICES

Unit-linked funds can have different prices for selling and buying units. These are known as the 'bid' (selling) and 'offer' (buying) prices. When clients first invest into an initial-priced Old Mutual Wealth product they will be allocated units using the **offer price** of the unit-linked fund and therefore pay the initial charge. Any subsequent valuation, switch, withdrawal or cancellation of units to pay for charges within that product will be carried out at the **bid price**. Thus, a client will only pay the initial charge once – when new money is invested in the product.

Single priced OMWLA unit-linked funds only have one price, with product charges being taken via unit deductions direct from your plan.

OLD MUTUAL WEALTH MULTIMANAGER UNIT-LINKED FUNDS

An Old Mutual Wealth MultiManager unit-linked fund is made up of a portfolio of Old Mutual Wealth single manager unit-linked funds. The proportion of each of these is determined in accordance with the objectives of each MultiManager fund.

We calculate Old Mutual Wealth MultiManager unit-linked fund unit prices each working day based on the following process:

- **Stage 1**
For each single manager unit-linked fund in the portfolio, a value is calculated based on the Old Mutual Wealth MultiManager unit-linked fund's holding, using the single manager unit-linked fund price calculated in stage 5 on the previous page.
This is done BEFORE any Old Mutual Wealth AMC is deducted, to ensure no double charging occurs.
- **Stage 2**
The sum of all the portfolio holdings gives us the 'internal fund value'.
- **Stage 3**
The internal fund value is divided by the number of units which have been allocated to all Old Mutual Wealth clients who have holdings in the fund to arrive at the the price of individual units. The Old Mutual Wealth AMC is deducted at this stage if applicable.
(Specific product Terms and Conditions will state if the Old Mutual Wealth AMC is taken by adjusting the unit price or by deducting units from the client policy.)
- **Stage 4**
For 'single priced' OMWLA unit-linked fund products (see product Terms and Conditions for more details) the price created in stage 5 on the previous page will be the quoted price and the price applied to all transactions in the unit-linked fund.

For 'initial-priced' OMWLA unit-linked fund products (see Terms and Conditions for more details), the price created in stage 5 on the previous page is set as the bid price and will be increased by 5% to derive an offer price.

Note: Rounding – the Old Mutual Wealth fund offer price is truncated to one decimal place and the bid price rounded up to one decimal place ensuring the bid/offer spread never exceeds the set level eg 5%. No rounding charge is levied in the price calculation.

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FACTORS INVOLVED IN THE PRICING PROCESS (continued)

FUND BASIS

The price at which units in Old Mutual Wealth unit-linked funds are bought and sold may vary according to whether the unit-linked fund has an overall cash inflow or outflow at the time of the transaction.

Where an Old Mutual Wealth unit-linked fund has a positive cash flow – more money being invested into a fund than being taken out – the Old Mutual Wealth unit-linked fund will be valued using the price used to buy the underlying investments (as set out in the examples above). This is what is known as valuing on an ‘expanding basis’ and is the way Old Mutual Wealth normally values its unit-linked funds.

Where there is negative cash flow – more money leaving a fund than being invested – the Old Mutual Wealth unit-linked fund will be valued using the selling price of the underlying CIS. This is what is known as valuing on a ‘contracting basis’.

The process of Old Mutual Wealth moving its unit-linked fund from an expanding to a contracting basis is called a ‘basis move’. The principle behind these adjustments is to provide equal treatment for all clients in a unit-linked fund, those withdrawing money and those remaining. If this adjustment did not take place, it would result in the fund bearing the costs associated with the sale of the underlying CIS, which would be inequitable to the remaining policyholders.

A basis move can skew performance comparisons and it is important to remember they do not affect existing policyholders who are not transacting.

CHARGES APPLICABLE TO THE UNIT-LINKED FUNDS

The true cost of running a fund is represented by a percentage known as the ‘Total Expense Ratio’ (TER). TERs provide clients with a clearer picture of the total annual costs for running a CIS.

It consists principally of the CIS manager’s AMC, as well as the additional fund running expenses, which include charges for administration costs associated with the running of the funds, depository and custodial charges, and audit, registration and compliance fees.

The effect of the CIS TER may be reduced by rebates received by Old Mutual Wealth from the underlying CIS provider. These rebates represent a return of some of the AMC deducted by the manager of the underlying CIS. A proportion of the negotiated rebates may be applied to the fund as income. Such application, where applicable, will take place at least once a month.

TAXATION ALLOWANCES

An allowance for taxation is made within the unit-linked fund price to reflect the tax Old Mutual Wealth expects to pay on investment returns in respect of that fund. This allowance for tax is only applicable to non-pension funds and is intended to be a fair provision for the tax Old Mutual Wealth will be required to pay on investment returns. Investment returns on unit-linked ‘pension’ funds are not usually subject to UK tax, so no allowance is made within the value of the fund’s assets. This tax allowance is intended to provide fairness between different generations of policyholders and shareholders.

Gains and losses – investment growth will be charged at the prevailing tax rate set by Old Mutual Wealth and may include an allowance for inflation which can reduce the tax chargeable to the fund. Conversely, if there has been a reduction in the fund’s value since the purchase price, the fund may receive a tax credit for losses or expected losses, which will have the effect of reducing the amount of tax allowed for in the fund price.

PRICE MISCALCULATION

Old Mutual Wealth makes every effort to calculate prices accurately and has a rigorous validation process in place to minimise instances of error. Sometimes miscalculations can occur in the pricing of units, either in the valuation process of the underlying CIS manager or Old Mutual Wealth, or merely because of a timing delay.

In the event of an incorrect price being identified, through internal monitoring or notification by the CIS manager, Old Mutual Wealth will record the error and assess for significance and client impacts. Our aim is to correct the error(s) as soon as possible in line with pre-determined tolerances and to compensate clients accordingly in cases where an error has resulted in material loss. The considerations and principles we use in applying any such correction are in accordance with the Association of British Insurers (ABI) and FCA guidelines, our policy Terms and Conditions and our commitments to treating our customers fairly.

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FACTORS INVOLVED IN THE PRICING PROCESS (continued)

In cases where an error is discovered, an assessment will first be made to determine the scale of the error and the impact on policyholders involved. This assessment will include a detailed review of every price throughout the period to ensure all impacts are incorporated into the decision-making process. If the pricing error is deemed substantial enough to warrant a retrospective re-pricing of the Old Mutual Wealth unit-linked fund on a given day or period, policyholders who conducted a transaction during the revaluation date(s) will have their transactions reworked at the corrected price. We generally consider a significant loss to be an impact of 0.5% or more on the unit price on a specific day.

We aim to put client policies back into the position they would have been in had the pricing error not occurred, subject to *de minimis* limits, meaning that in cases where the effect on the client's policy is too small to warrant the administrative costs, we will not make an adjustment.

We will not routinely advise clients of these changes unless the correction of prices results in the removal of units exceeding £50. It should be noted that occurrences of this nature are infrequent; however, in such cases we will seek to advise the client via a formal letter, as soon as reasonably practicable.

In the case of former policyholders who are found to have been affected by such an error, we will seek to make ex gratia cash payments to those who have been disadvantaged by £10 or more. At our discretion, we may seek repayment from former policyholders who have been materially advantaged.

FUND LAUNCHES, CLOSURES, MERGERS AND OBJECTIVE CHANGES

Old Mutual Wealth offers an exceptionally wide range of investment funds to meet the needs of investors. The fund range may vary as more are added to our platform to offer more choice and diversity. It may occasionally be necessary to close or merge funds for commercial or practical reasons, normally at the request of the CIS manager. We will advise you and your financial adviser as soon as reasonably practical before any such closure, to give you time to reconsider your needs.

Where a material change to a fund's objective has been made, Old Mutual Wealth will notify you in writing as soon as is practicably possible. This will also be the case where, for example, there is an increase in the CIS manager's AMC.

SIGNIFICANT EVENTS

Where circumstances prevent us calculating fair and accurate unit prices for a particular transaction, we may defer the transaction to a date we consider appropriate and equitable. For example, this may occur where a CIS provider has had to suspend dealings in a fund for some reason. When considering the action we will take, we will consider the circumstances, your interests and the interests of all our clients. In such circumstances, we may defer any request for a switch or encashment. If a fund holds real property directly or indirectly, we may exercise a longer deferral period because the value of the property in the fund may not be readily realisable. In the event of a future fund suspension we will fully meet maturities, regular withdrawals, pensions coming into payment and pay-outs on death relating to unit-linked contracts during deferral periods.

The purpose of this guide is to set out the main criteria and standards by which these unit-linked funds are operated, with specific reference to the scope of Old Mutual Wealth's discretion relating to unit pricing. This document is intended to provide an explanation of Old Mutual Wealth's operational practice and does not form part of the product Terms and Conditions.

www.oldmutualwealth.co.uk

Please be aware that calls and electronic communications may be recorded for monitoring, regulatory and training purposes and records are available for at least five years.

Old Mutual Wealth Limited is registered in England & Wales under number 1680071.

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